SONOCO PRODUCTS CO
Form 10-Q
October 27, 2009

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

FORM 10-Q

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

For the quarterly period ended September 27, 2009

or

o **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 þ No o

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 o No o (not yet applicable to registrant)

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 þ	Accelerated filer o	Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock at October 23, 2009:

Common stock, no par value: 100,013,196

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 27, 2009	December 31, 2008*
Assets		
Current Assets		
Cash and cash equivalents	$ 194,118	$ 101,655
Trade accounts receivable, net of allowances	456,135	392,171
Other receivables	26,949	46,827
Inventories:		
Finished and in process	116,417	125,200
Materials and supplies	177,723	188,969
Prepaid expenses	27,847	50,259
Deferred income taxes	24,485	24,909
	1,023,674	929,990
Property, Plant and Equipment, Net	955,496	973,442
Goodwill	809,431	782,983
Other Intangible Assets, Net	114,804	120,540
Long-term Deferred Income Taxes	102,143	132,536
Other Assets	149,409	146,975
Total Assets	$ 3,154,957	$ 3,086,466
Liabilities and Equity		
Current Liabilities		
Payable to suppliers	$ 365,477	$ 353,846
Accrued expenses and other	315,451	299,428
Notes payable and current portion of long-term debt	30,005	32,978
Accrued taxes	11,033	11,944
	721,966	698,196
Long-term Debt, Net of Current Portion	561,673	656,847
Pension and Other Postretirement Benefits	458,032	455,197
Deferred Income Taxes	34,976	50,450
Other Liabilities	59,792	51,258[1]
Commitments and Contingencies		
Sonoco Shareholders Equity		
Common stock, no par value		
Authorized 300,000 shares 99,960 and 99,732 shares issued and outstanding at September 27, 2009 and December 31, 2008, respectively	7,175	7,175
Capital in excess of stated value	413,885	404,939
Accumulated other comprehensive loss	(344,793)	(454,679)

Retained earnings		1,228,253		1,205,540
Total Sonoco Shareholders Equity		1,304,520		1,162,975
Noncontrolling Interests		13,998		11,543[1]
Total Equity		1,318,518		1,174,518
Total Liabilities and Equity	$	3,154,957	$	3,086,466

* 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.

[1] Prior year s data have been reclassified to conform to the current year s presentation reflecting the adoption of new accounting requirements for noncontrolling interests.

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)

	Three Months Ended		Nine Months Ended	
	September 27, 2009	**September 28, 2008***	**September 27, 2009**	**September 28, 2008***
Net sales	$ 930,560	$ 1,063,250	$ 2,595,420	$ 3,187,813
Cost of sales	757,504	878,514	2,123,217	2,621,994
Gross profit	173,056	184,736	472,203	565,819
Selling, general and administrative expenses	98,085	92,989	277,623	292,039
Restructuring/Asset impairment charges (see Note 3)	158	5,530	17,754	77,838
Income before interest and income taxes	74,813	86,217	176,826	195,942
Interest expense	10,202	12,682	31,167	40,763
Interest income	(801)	(2,053)	(2,064)	(4,809)
Income before income taxes	65,412	75,588	147,723	159,988
Provision for income taxes	16,436	21,807	42,912	46,671
Income before equity in earnings of affiliates	48,976	53,781	104,811	113,317
Equity in earnings of affiliates, net of tax	2,401	2,970	3,291	7,690
Net income	$ 51,377	$ 56,751	$ 108,102	$ 121,007
Less: Net (income) loss attributable to noncontrolling interests	$ (3,706)	$ 600	$ (3,699)	$ 7,589
Net income attributable to Sonoco	$ 47,671	$ 57,351	$ 104,403	$ 128,596
Weighted average common shares outstanding:				
Basic	100,829	100,371	100,717	100,262
Diluted	101,105	101,292	100,876	101,060
Per common share:				
Net income attributable to Sonoco:				

Basic	$ 0.47	$ 0.57	$ 1.04	$ 1.28
Diluted	$ 0.47	$ 0.57	$ 1.03	$ 1.27
Cash dividends	$ 0.27	$ 0.27	$ 0.81	$ 0.80

* Prior year s data have been reclassified to conform to the current year s presentation reflecting the adoption of new accounting requirements for noncontrolling interests.

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)

	Nine Months Ended	
	September 27, 2009	**September 28, 2008***
Cash Flows from Operating Activities:		
Net income	$ 108,102	$ 121,007
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	128,104	138,662
Financial asset impairment		42,651
Restructuring-related asset impairment and pension curtailment	10,184	16,469
(Gain) loss on disposition of assets	(16,274)	2,203
Pension and postretirement plan expense	63,931	20,984
Pension and postretirement plan contributions	(17,765)	(11,141)
Share-based compensation expense	5,580	6,840
Equity in earnings of affiliates	(3,291)	(7,690)
Cash dividends from affiliated companies	4,030	7,507
Tax effect of nonqualified stock options	1,133	805
Excess tax benefit of share-based compensation	(384)	(705)
Deferred taxes	(7,484)	(14,708)
Change in assets and liabilities, net of effects from acquisitions, dispositions, and foreign currency adjustments:		
Trade accounts receivable	(42,064)	(15,784)
Inventories	30,989	(18,242)
Payable to suppliers	20,160	(7,683)
Prepaid expenses	7,336	(1,336)
Prepaid income taxes and taxes payable	24,562	4,014
Fox River environmental reserves and insurance receivable	(5,250)	39,565
Other assets and liabilities	46,241	(13,218)
Net cash provided by operating activities	357,840	310,200
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(82,807)	(91,520)
Cost of acquisitions, net of cash acquired	(500)	(5,535)
Proceeds from the sale of assets	16,956	4,557
Investment in affiliates and other	(2,215)	(979)
Net cash used in investing activities	(68,566)	(93,477)
Cash Flows from Financing Activities:		
Proceeds from issuance of debt	23,129	23,597
Principal repayment of debt	(32,304)	(98,462)
Net (decrease) increase in commercial paper	(95,000)	11,000
Net decrease in bank overdrafts	(18,043)	(4,206)

Excess tax benefit of share-based compensation	384	705
Cash dividends	(80,876)	(79,626)
Shares acquired	(1,203)	(809)
Shares issued	3,239	6,370
Net cash used in financing activities	(200,674)	(141,431)
Effects of Exchange Rate Changes on Cash	3,863	1,426
Net Increase in Cash and Cash Equivalents	92,463	76,718
Cash and cash equivalents at beginning of period	101,655	70,758
Cash and cash equivalents at end of period	$ 194,118	$ 147,476

* Prior year s data have been reclassified to conform to the current year s presentation and to reflect the adoption of new accounting requirments for noncontrolling interests.

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 nine months ended September 27, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. 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, 2008.

On January 1, 2009, the Company adopted new U.S. GAAP requiring minority interests to be renamed noncontrolling interests and be presented as a component of equity for all periods presented. Accordingly, $11,543 of noncontrolling interests previously included in Other liabilities on its December 31, 2008 balance sheet was reclassified to equity. Net income on the Company s Condensed Consolidated Statements of Income was adjusted to include the net income attributed to noncontrolling interests. Net income attributable to Sonoco (previously reported as Net income) was not affected.

With respect to the unaudited condensed consolidated financial information of the Company for the three and nine-month periods ended September 27, 2009 and September 28, 2008 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 October 27, 2009 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.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 27, 2009, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 27, 2009, the date these financial statements were issued. No such events or transactions were noted to have occurred.

Note 2: Shareholders Equity

Earnings per Share

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

	Three Months Ended		**Nine Months Ended**	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Numerator:				
Net income attributable to Sonoco	$ 47,671	$ 57,351	$ 104,403	$ 128,596

Denominator:				
Weighted average common shares outstanding	100,829,000	100,371,000	100,717,000	100,262,000
Dilutive effect of:				
Stock-based compensation	276,000	921,000	159,000	798,000
Dilutive shares outstanding	101,105,000	101,292,000	100,876,000	101,060,000
Reported net income attributable to Sonoco per common share:				
Basic	$ 0.47	$ 0.57	$ 1.04	$ 1.28
Diluted	$ 0.47	$ 0.57	$ 1.03	$ 1.27

SONOCO PRODUCTS COMPANY
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Stock options and stock appreciation rights to purchase 3,345,019 and 1,250,679 shares at September 27, 2009 and September 28, 2008, 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.

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 repurchased under this authorization during the first nine months of 2009. Accordingly, at September 27, 2009, a total of 5,000,000 shares remain available for repurchase.

The Company occasionally repurchases shares of its common stock to satisfy employee tax withholding obligations in association with the exercise of stock appreciation rights and performance-based stock awards. These repurchases, which are not part of a publicly announced plan or program, totaled 49,416 shares in the first nine months of 2009 at a cost of $1,203.

Note 3: Restructuring and Asset Impairment

The Company has engaged in a number of restructuring actions over the past several years. Actions initiated in 2009, 2008 and 2007 are reported as 2009 Actions, 2008 Actions and 2007 Actions, respectively. In addition, the Company has two formal restructuring plans that are still active, although both were substantially complete at September 27, 2009. These are reported as Earlier Actions. Following are the total restructuring and asset impairment charges, net of adjustments, recognized by the Company during the periods presented:

	2009		2008	
	Third Quarter	**Nine Months**	**Third Quarter**	**Nine Months**
Restructuring/Asset impairment:				
2009 Actions	$ 5,498	$ 21,089	$	$
2008 Actions	1,043	7,229	4,526	13,395
2007 Actions	(6,402)	(10,873)	566	19,431
Earlier Actions	19	309	438	2,361
Financial Asset Impairment				42,651
Restructuring/Asset impairment charges	$ 158	$ 17,754	$ 5,530	$ 77,838
Income tax benefit	(7)	(5,392)	(2,043)	(23,733)
Impact of Noncontrolling Interests, net of tax	3,062	4,189	(171)	(5,379)
Total impact of Restructuring/Asset impairment charges, net of tax	$ 3,213	$ 16,551	$ 3,316	$ 48,726

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 cash costs totaling approximately $4,800 in connection with previously announced restructuring actions and believes that the majority of these charges will be incurred and paid by the end of 2009. The Company continually evaluates its cost structure, including its manufacturing capacity, and additional restructuring actions may be undertaken.

2009 Actions

During 2009, the Company initiated closures in its Tubes and Cores/Paper segment including a paper mill in the United States and five tube and core plants three in the United States, one in Europe, and one in Canada. The Company also initiated the closures of a rigid paper packaging plant in the United States (part of the Consumer Packaging segment), a fulfillment service center in Germany (part of the Packaging Services segment), and a molded plastics facility in the United States (part of All Other Sonoco). In the third quarter, the Company sold a small Canadian recovered paper brokerage business. Net sales associated with this business were

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approximately $7,000 through the date of the sale. In addition to the plant closures, the Company has continued to realign its fixed cost structure resulting in the elimination of approximately 210 positions in 2009.

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

2009 Actions	**Third Quarter**	**Total Incurred to Date**	**Estimated Total Cost**
Severance and Termination Benefits			
Tubes and Cores/Paper segment	$ 3,365	$ 9,222	$ 10,600
Consumer Packaging segment	605	805	805
Packaging Services segment	376	1,348	1,348
All Other Sonoco	32	1,060	1,060
Corporate	647	647	647
Asset Impairment / Disposal of Assets			
Tubes and Cores/Paper segment	(282)	6,420	6,420
Other Costs			
Tubes and Cores/Paper segment	736	1,338	2,530
All Other Sonoco	19	249	340
Total	$ 5,498	$ 21,089	$ 23,750

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

2009 Actions Accrual Activity 2009 Year to Date	**Severance and Termination Benefits**	**Asset Impairment/ Disposal of Assets**	**Other Costs**	**Total**
Liability at December 31, 2008	$	$	$	$
New charges	13,082	6,420	1,587	21,089
Cash receipts/(payments)	(5,682)	2,775	(1,409)	(4,316)
Asset writedowns/disposals		(9,195)		(9,195)
Foreign currency translation	140			140
Liability at September 27, 2009	$ 7,540	$	$ 178	$ 7,718

Proceeds of $2,775 were received from the sale of a Canadian recovered paper brokerage business. The net book value of property, plant and equipment written off against the sales proceeds totaled $125. Also written off was associated goodwill totaling $1,643. The resulting gain of $1,007 is reflected under New charges in the table above.

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

2008 Actions

During 2008, the Company initiated the following closures in its Tubes and Cores/Paper segment: ten tube and core plants, three in the United States, three in Canada, two in the United Kingdom, one in Spain, and one in China; two paper mills, one in the United States and one in Canada; and a specialty paper machine in the United States. In addition, closures were initiated at four rigid packaging plants in the United States (part of the Consumer Packaging segment) and two fulfillment centers in the United States (part of the Packaging Services segment). The Company also realigned its fixed cost structure resulting in the elimination of approximately 125 salaried positions.

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Below is a summary of 2008 Actions and related expenses by type incurred and estimated to be incurred through the end of the restructuring initiative.

	2009		2008		Total	
2008 Actions	**Third Quarter**	**Nine Months**	**Third Quarter**	**Nine Months**	**Incurred to Date**	**Estimated Total Cost**
Severance and Termination Benefits						
Tubes and Cores/Paper segment	$ 329	$ 2,877	$ 2,261	$ 3,491	$ 11,098	$ 11,098
Consumer Packaging segment	11	31	1,729	1,729	4,133	4,633
Packaging Services segment		87			1,455	1,455
All Other Sonoco					563	563
Corporate		96			1,830	1,830
Asset Impairment / Disposal of Assets						
Tubes and Cores/Paper segment	39	(783)	140	5,490	10,166	10,166
Consumer Packaging segment		126	11	11	4,832	4,832
Packaging Services segment		(365)				
Other Costs						
Tubes and Cores/Paper segment	457	4,283	314	2,603	9,528	10,164
Consumer Packaging segment	207	862	71	71	1,836	2,336
Corporate		15			23	23
Total	$ 1,043	$ 7,229	$ 4,526	$ 13,395	$ 45,464	$ 47,100

The following table sets forth the activity in the 2008 Actions restructuring accrual included in Accrued expenses and other on the Company s Condensed Consolidated Balance Sheets:

2008 Actions Accrual Activity 2009 Year to Date	**Severance and Termination Benefits**	**Asset Impairment/ Disposal of Assets**	**Other Costs**	**Total**
Liability at December 31, 2008	$ 11,893	$	$ 357	$ 12,250
New charges	3,022	(48)	5,172	8,146
Cash receipts/(payments)	(11,298)	1,149	(3,721)	(13,870)
Asset writedowns/disposals		(127)		(127)
Foreign currency translation	181		(6)	175
Pension curtailment/settlement			(838)	(838)
Adjustments	69	(974)	(12)	(917)

Liability at September 27, 2009	$ 3,867	$	$ 952	$ 4,819

During the second quarter of 2009, the Company received proceeds of $1,149 from the sale of a building at a tube and core operation in Canada. The resulting gain of $974 is shown under Adjustments in the table above.

The Company expects to pay the majority of the remaining 2008 Actions restructuring costs by the end of 2009 using cash generated from operations.

SONOCO PRODUCTS COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)
(unaudited)

2007Actions

In 2007, the Company initiated the closures of the following operations: a metal ends plant in Brazil (part of the Consumer Packaging segment), a rigid packaging plant in the United States (part of the Consumer Packaging segment), a paper mill in China (part of the Tubes and Cores/Paper segment), a molded plastics plant in Turkey (part of All Other Sonoco), and a point-of-purchase display manufacturing plant in the United States (part of the Packaging Services segment).

Below is a summary of 2007 Actions and related expenses by type incurred and estimated to be incurred through the end of the restructuring initiative.

2007 Actions	2009 Third Quarter	2009 Nine Months	2008 Third Quarter	2008 Nine Months	Total Incurred to Date	Estimated Total Cost
Severance and Termination Benefits						
Tubes and Cores/Paper segment	$ 223	$ 510	$	$ 6,867	$ 8,566	$ 8,566
Consumer Packaging segment			50	651	1,527	1,527
Packaging Services segment		(7)	(13)	120	397	397
All Other Sonoco					36	36
Asset Impairment / Disposal of Assets						
Tubes and Cores/Paper segment	(6,803)	(11,682)	145	4,873	(12,528)	(12,528)
Consumer Packaging segment		24		3,731	21,553	21,553
All Other Sonoco			(61)	(61)	536	536
Other Costs						
Tubes and Cores/Paper segment	170	210		216	814	964
Consumer Packaging segment	8	72	445	3,034	3,442	3,442
All Other Sonoco					228	228
Total	$ (6,402)	$ (10,873)	$ 566	$ 19,431	$ 24,571	$ 24,721

The following table sets forth the activity in the 2007 Actions restructuring accrual included in Accrued expenses and other on the Company s Condensed Consolidated Balance Sheets:

2007 Actions Accrual Activity	Severance and Termination	Asset Impairment/ Disposal	Other

2009 Year to Date	**Benefits**	**of Assets**	**Costs**	**Total**
Liability at December 31, 2008	$ 1,745	$	$	$ 1,745
New charges	510	24	282	816
Cash receipts/(payments)	(2,168)	11,682	(282)	9,232
Asset writedowns/disposals		(24)		(24)
Foreign currency translation	(7)			(7)
Adjustments	(7)	(11,682)		(11,689)
Liability at September 27, 2009	$ 73	$	$	$ 73

Sales proceeds of $14,671, net of commissions, were received in December 2008 related to the sale of the Company s paper mill in China. At the time these proceeds were received, the book value of property, plant and equipment and land use rights (an intangible asset) was written off. The remaining sales proceeds totaling $11,211 were received during the first and third quarters of 2009, the full amount of which is reflected as a net gain under Adjustments in the table above. The Company recognized proceeds from this transaction on a cash basis and recorded gains only to the extent that cash collected exceeded the book value of the assets sold.

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SONOCO PRODUCTS COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)
(unaudited)

During the three and nine months ended September 27, 2009, the Company also recorded non-cash, after-tax offsets in the amounts of $3,062 and $4,189, respectively, to reflect the impact of the noncontrolling interest holder s portion of the gain discussed above.

The Company expects to pay the majority of the remaining 2007 Actions restructuring costs during 2009 using cash generated from operations.

Earlier Actions

Earlier Actions are comprised of two formal restructuring plans, the 2006 Plan and the 2003 Plan, both of which included a number of plant closures and workforce reductions. At September 27, 2009, the remaining restructuring accrual for Earlier Actions was $715. The accrual, included in Accrued expenses and other on the Company s Condensed Consolidated Balance Sheet, relates primarily to building lease terminations and unpaid severance and termination benefits. The Company expects to recognize future pre-tax charges of approximately $350 associated with Earlier Actions, primarily related to building lease terminations and costs of exiting two closed facilities in Europe. The Company expects both the liability and the future costs to be fully paid at the end of 2012, using cash generated from operations.

Financial Asset Impairment

As part of the 2003 sale of its High Density Film business, the Company received a subordinated note receivable and a preferred equity interest in the buyer as a portion of the selling price. Based on information provided by the buyer late in the first quarter of 2008, the Company concluded that neither the collection of its subordinated note receivable nor redemption of its preferred equity interest was probable, and that their value was likely zero. Accordingly, the Company fully reserved these items in the first quarter of 2008, recording a charge totaling $42,651 pretax ($30,981 after tax). This financial asset impairment charge is included in Restructuring/Asset impairment charges in the Company s Condensed Consolidated Statements of Income. On May 6, 2008, the buyer filed a petition for relief under Chapter 11 with the United States Bankruptcy Court for the District of Delaware that included a plan of reorganization, which was subsequently approved by the court June 26, 2008. As part of the plan of reorganization, the Company s preferred equity interest and its subordinated note receivable were extinguished with no recovery by the Company.

Note 4: Comprehensive Income

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

	Three Months Ended		**Nine Months Ended**	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Net income	$ 51,377	$ 56,751	$ 108,102	$ 121,007
Other comprehensive income, net of income tax:				
Foreign currency translation adjustments	47,048	(53,579)	74,556	(31,002)
Changes in defined benefit plans	(66)	(657)	29,187	4,476
Changes in derivative financial instruments	3,336	(14,802)	6,143	(2,091)

Comprehensive income/(loss)	$ 101,695	$ (12,287)	$ 217,988	$ 92,390
Comprehensive (income)/loss attributable to noncontrolling interests	(3,706)	600	(3,699)	7,589
Comprehensive income/(loss) attributable to Sonoco	$ 97,989	$ (11,687)	$ 214,289	$ 99,979

SONOCO PRODUCTS COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)
(unaudited)

The following table summarizes the components of accumulated other comprehensive loss and the changes in accumulated other comprehensive loss, net of tax as applicable, for the nine months ended September 27, 2009:

	Foreign Currency Translation Adjustments	Defined Benefit Plans	Derivative Financial Instruments	Accumulated Other Comprehensive Loss
Balance at December 31, 2008	$ (68,737)	$ (372,807)	$ (13,135)	$ (454,679)
Year-to-date change	74,556	29,187	6,143	109,886
Balance at September 27, 2009	$ 5,819	$ (343,620)	$ (6,992)	$ (344,793)

At September 27, 2009, the Company had commodity contracts outstanding to fix the costs of certain anticipated raw materials and energy purchases. These contracts, which have maturities ranging from October 2009 to December 2012, qualify as cash flow hedges under U.S GAAP. The amounts included in accumulated other comprehensive loss related to these commodity contracts were an unfavorable position of $11,079 ($6,992 after tax) at September 27, 2009, and an unfavorable position of $20,815 ($13,135 after tax) at December 31, 2008.

The cumulative tax benefit on Derivative Financial Instruments was $4,087 at September 27, 2009, and $7,680 at December 31, 2008. During the three and nine-month periods ended September 27, 2009, the tax benefit on Derivative Financial Instruments decreased by $(2,037) and $(3,593), respectively.

The cumulative tax benefit on Defined Benefit Plans was $207,419 at September 27, 2009, and $225,258 at December 31, 2008. During the three and nine-month periods ended September 27, 2009, the tax benefit on Defined Benefit Plans increased by $191 and decreased by $(17,839), respectively.

Note 5: Goodwill and Other Intangible Assets

Goodwill

A summary of the changes in goodwill for the nine months ended September 27, 2009 is as follows:

	Tubes and Cores /Paper Segment	Consumer Packaging Segment	Packaging Services Segment	All Other Sonoco	Total
Balance as of December 31, 2008	$ 229,239	$ 336,894	$ 150,610	$ 66,240	$ 782,983
Goodwill on acquisitions			500		500
Other	(1,643)				(1,643)
Foreign currency translation	11,013	16,377	124	77	27,591
Balance as of September 27, 2009	$ 238,609	$ 353,271	$ 151,234	$ 66,317	$ 809,431

The Company recorded $500 of goodwill related to the payment of contingent consideration on the prior year acquisition of Amtex Packaging, Inc. In addition, in the third quarter of 2009, the Company disposed of $1,643 of goodwill associated with the sale of a recovered paper brokerage business in Canada. This disposition is reflected in the table above under the caption Other .

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The Company completed its annual goodwill impairment testing during the third quarter of 2009. Based on the results of that evaluation, the Company concluded that there was no impairment of goodwill for any of its reporting units. For testing purposes, the fair values of the Company s reporting units were estimated based on projections of future years operating results and associated cash flows. These projections reflected management s expectations for a gradual recovery in the overall economy beginning in 2010 as well as improved results from ongoing growth opportunities and initiatives. Should the improved operating results reflected in these projections not materialize, future goodwill impairment charges may be required. The Global Services unit is currently engaged in a bid being conducted by its largest customer involving a significant amount of business currently held by the unit. The outcome of the bidding process is expected to be announced sometime in the fourth quarter and, if unfavorable, may cause the Company to reevaluate the goodwill and intangibles of this unit for impairment at that time. Reporting units with significant goodwill whose results need to show improvement from current levels in order to assure that there will not be a future impairment include Tubes & Cores/Paper Europe, Global Services, Matrix Packaging, and Molded Plastics. While the global economic recession has impacted each of these units, it has had a more significant impact on the operating results of Tubes & Cores/Paper- Europe and Molded Plastics. The Company expects operating results in all of these units to improve as general economic conditions improve and has implemented certain restructuring actions that are expected to bolster future cash flows. In addition, results in Matrix Packaging are projected to grow at levels beyond that expected from a recovery in the general economy. If the Company s assessment of the relevant facts and circumstances changes, economic conditions fail to improve, or actual performance in any of these reporting units falls short of expected results, noncash impairment charges may be required. Total goodwill associated with Global Services, Matrix Packaging, Tubes & Cores/Paper Europe, and Molded Plastics was approximately $151,000, $126,000, $112,000, and $39,000, respectively at September 27, 2009.

Other Intangible Assets

A summary of other intangible assets as of September 27, 2009 and December 31, 2008 is as follows:

	September 27, 2009	**December 31, 2008**
Amortizable intangibles Gross cost		
Patents	$ 691	$ 3,559
Customer lists	159,732	156,883
Land use rights	336	316
Supply agreements	1,000	1,000
Other	7,712	12,047
Total gross cost	$ 169,471	$ 173,805
Total accumulated amortization	$ (54,667)	$ (53,265)
Net amortizable intangibles	$ 114,804	$ 120,540

During the first nine months of 2009, the Company wrote off patents and other intangible assets with a gross cost of approximately $8,600. These intangible assets, which were fully amortized, had no legal or economic life remaining.

Other intangible assets are amortized, usually on a straight-line basis, over their respective useful lives, which generally range from three to twenty years. Aggregate amortization expense was $3,313 and $3,188 for the three months ended September 27, 2009 and September 28, 2008, respectively, and $9,377 and $10,150 for the nine months ended September 27, 2009 and September 28, 2008, respectively. Amortization expense on other intangible assets is expected to approximate $12,500 in 2009, $11,800 in 2010, $11,500 in 2011, $11,000 in 2012 and $10,800 in 2013.

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Note 6: Fair Value Measurements

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

		Fair Value Measurements at Reporting Date Using		
Description	**September 27, 2009**	**Quoted Market Prices in Active Market for Identical Assets/Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Derivatives	$ 1,896	$ ¾	$ 1,896	$ ¾
Deferred Compensation Plan Assets	$ 1,890	$ 1,890	$ ¾	$ ¾
Liabilities:				
Derivatives	$ 12,899	$ ¾	$ 12,899	$ ¾

Fair value measurements for the Company s derivatives, which at September 27, 2009, consisted primarily of natural gas, aluminum, and foreign currency contracts entered into for hedging purposes, 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 and the assets invested in various exchange traded mutual funds. These assets are measured using quoted prices in accessible active markets for identical assets.

None of the Company s financial assets or liabilities currently covered by the disclosure provisions of U.S. GAAP is measured at fair value using significant unobservable inputs.

Although the impairment model for goodwill is a fair value-based assessment model, goodwill is not periodically remeasured at fair value. In the event an impairment loss is recorded, the required nonrecurring fair value disclosures will be provided.

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.

	September 27, 2009		December 31, 2008	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**

Long-term debt	$ 561,673	$ 593,253	$ 656,847	$ 599,748

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

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

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

Cash Flow Hedges

At September 27, 2009 and December 31, 2008, the Company had derivative 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 and aluminum. At September 27, 2009, natural gas contracts covering approximately 5.7 million MMBtus were outstanding. These contracts represent approximately 75%, 58%, 36% and 16% of anticipated U.S. and Canadian usage for 2009, 2010, 2011 and 2012, respectively. Additionally, the Company had contracts covering 1.9 thousand metric tons of aluminum representing approximately 61% of anticipated usage for 2009 and 30% of anticipated usage for 2010. The fair value of commodity cash flow hedges was a net liability of $(12,258) and $(20,491) at September 27, 2009 and December 31, 2008, respectively. The amount of the loss included in Accumulated other comprehensive loss at September 27, 2009, that is expected to be reclassified to the income statement during the next twelve months is $8,190.

Foreign Currency Cash Flow Hedges

The Company has entered into forward contracts to hedge certain anticipated foreign currency denominated sales and purchases forecasted to occur in 2009. At September 27, 2009, the net position of these contracts was to purchase 13.4 million Canadian dollars, purchase 835.3 thousand British pounds, and sell 1.4 million euros. The fair value of these foreign currency cash flow hedges was a net asset of $1,146 and a net liability of $(693) at September 27, 2009 and December 31, 2008, respectively. The amount of the gain included in Accumulated other comprehensive loss at September 27, 2009 expected to be reclassified to the income statement during the next twelve months is $1,159.

Fair Value Hedges

During the third quarter, the Company entered into an interest rate derivative to swap $150,000 notional value of its 6.5% debentures due November 2013 to a floating rate. The effect of this fair value hedge was a decrease of the total bond liability of $89 at September 27, 2009. The fair value of this hedge was a net liability of $(100) at

September 27, 2009. The Company had no fair value hedges at December 31, 2008.

Other Derivatives

The Company routinely enters into forward contracts to economically hedge the currency exposure of certain intercompany debt and existing foreign currency denominated receivables and payables. The Company does not apply hedge accounting treatment for these instruments. As such, changes in fair value are recorded directly to income and expense in the periods that they occur. At September 27, 2009, the net positions of these contracts were to purchase 10.8 million Canadian dollars, purchase 613.3 thousand British pounds, and purchase 11.2

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billion Colombian pesos, and sell 308.8 thousand euros. The total fair value of these hedges, all of which were short-term, was an asset of $208 and $6,604 at September 27, 2009 and December 31, 2008, respectively.

The following table sets forth the location and fair values of the Company s derivative instruments at September 27, 2009:

FAIR VALUE OF DERIVATIVE INSTRUMENTS

Description	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments:		
Commodity Contracts	Other Current Assets	$ 328
Commodity Contracts	Other Long Term Assets	$ 180
Commodity Contracts	Other Current Liabilities	$ 8,752
Commodity Contracts	Other Long Term Liabilities	$ 4,014
Foreign Exchange Contracts	Other Current Assets	$ 1,159
Derivatives designated as fair value hedges:		
Interest Rate Swap Contracts	Other Current Liabilities	$ 100
Derivatives not designated as hedging instruments:		
Foreign Exchange Contracts	Other Current Assets	$ 242
Foreign Exchange Contracts	Other Current Liabilities	$ 33

The following table sets forth the effect of the Company s derivative instruments on financial performance for the three months ended September 27, 2009:

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)**
Derivatives in Cash Flow Hedging Relationships:					
Foreign Exchange Contracts	$ 1,509	Net sales	$ 3,430	Net sales	$ ¾
		Cost of sales	$ (2,516)	Cost of sales	$ ¾
Commodity Contracts	$ (670)	Cost of sales	$ (5,443)	Cost of sales	$ 17

Fair value hedge derivatives:		
Interest Rate Swap	Interest expense	$ (11)

	Location of Gain or (Loss) Recognized in Income Statement	Gain or (Loss) Recognized
Derivatives not designated as hedging instruments:		
Foreign Exchange Contracts	Cost of sales	$ 125
	Selling, general and administrative	$ 397

The following table sets forth the effect of the Company s derivative instruments on financial performance for the nine months ended September 27, 2009:

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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)
Derivatives in Cash Flow Hedging Relationships:					
Foreign Exchange Contracts	$ 3,058	Net sales	$ 3,784	Net sales	$
		Cost of sales	$ (2,896)	Cost of sales	$
Commodity Contracts	$ (12,620)	Cost of sales	$ (20,325)	Cost of sales	$ 470
Fair value hedge derivatives:					
Interest Rate Swap				Interest expense	$ (11)

	Location of Gain or (Loss) Recognized in Income Statement	Gain or (Loss) Recognized
Derivatives not designated as hedging instruments:		
Foreign Exchange Contracts	Cost of sales	$ 725
	Selling, general and administrative	$ 698

Note 8: Dividend Declarations

On July 15, 2009, the Board of Directors declared a regular quarterly dividend of $0.27 per share. This dividend was paid September 10, 2009 to all shareholders of record as of August 21, 2009.

On October 19, 2009, the Board of Directors declared a regular quarterly dividend of $0.27 per share. This dividend is payable December 10, 2009 to all shareholders of record as of November 20, 2009.

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 plan. The Company adopted a defined contribution plan, the Sonoco Investment and Retirement Plan (SIRP), covering its non-union U.S. employees hired on or after January 1, 2004. The Company also sponsors contributory pension plans covering the majority of its employees in the United Kingdom, Canada, and the Netherlands, as well as postretirement healthcare and life insurance benefits to the majority of its retirees and their eligible dependents in the United States and Canada.

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. At that time, remaining active participants in the U.S. qualified plan will become participants of the SIRP effective January 1, 2019. Active participants of the U.S. qualified plan had a one-time option to transfer into the SIRP effective January 1, 2010. Approximately one third of the active participants chose to opt out of the qualified plan early. The plan amendment also affected participants covered by the pension restoration plan (a nonqualified plan) as the benefit formulas for the restoration plan are linked to the qualified plan.

The plan amendment discussed above required that the assets and liabilities of the U.S. qualified and nonqualified defined benefit pension plans be remeasured as of February 4, 2009. The following table reconciles the beginning of year obligations and assets to their values on the remeasurement date:

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		U.S Defined Benefit Pension Plans
Change in Benefit Obligation		
Benefit obligation at January 1, 2009	$	972,372
Service cost		1,908
Interest cost		5,106
Liability gain due to curtailment		(12,340)
Actuarial gain		(41,529)
Benefits paid		(4,133)
Benefit obligation at February 4, 2009	$	921,384
Change in Plan Assets		
Fair value of Plan assets at January 1, 2009	$	601,608
Employer Contributions		497
Actual return on Plan assets		(30,140)
Benefits paid		(4,133)
Expenses paid		(260)
Fair value of Plan assets at February 4, 2009	$	567,572
Funded Status of the Plan	$	353,812

The discount rates used to determine the benefit obligation of the U.S. qualified and nonqualified defined benefit pension plans were 6.52% and 6.51%, respectively, at February 4, 2009, and 6.10% and 6.26%, respectively, at December 31, 2008.

The components of net periodic benefit cost include the following:

	Three Months Ended		**Nine Months Ended**	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Retirement Plans				
Service cost	$ 4,860	$ 7,007	$ 16,193	$ 20,076
Interest cost	18,798	17,760	54,160	55,470
Expected return on plan assets	(14,838)	(22,181)	(43,888)	(67,205)
Amortization of net transition obligation	104	186	292	309
Amortization of prior service cost	205	462	719	1,423
Amortization of net actuarial loss	10,704	2,272	30,550	9,451
Effect of curtailment loss	661		3,005	2,289
Effect of settlement loss		144	838	441

Net periodic benefit cost	$ 20,494	$ 5,650	$ 61,869	$ 22,254
Retiree Health and Life Insurance Plans				
Service cost	$ 349	$ 516	$ 1,036	$ 1,544
Interest cost	1,014	1,128	3,008	3,372
Expected return on plan assets	(287)	(481)	(852)	(1,437)
Amortization of prior service credit	(2,782)	(2,593)	(8,252)	(7,752)
Amortization of net actuarial loss	831	776	2,466	2,319
Net periodic benefit income	$ (875)	$ (654)	$ (2,594)	$ (1,954)

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As a result of the amendment to the U.S. defined benefit pension plans, the Company recognized curtailment losses totaling $3,005 in 2009. Approximately 75% of the losses are included in Cost of sales in the Condensed Consolidated Statements of Income; the remainder are included in Selling, general and administrative expenses. The closure of a paper mill in Canada in 2008 resulted in the recognition of a $2,289 curtailment loss in the second quarter of 2008 and a settlement loss of $838 in the second quarter of 2009. These charges are included in Restructuring/Asset impairment charges in the Condensed Consolidated Statements of Income.

During the nine months ended September 27, 2009, the Company made contributions of $12,918 to its defined benefit retirement and retiree health and life insurance plans. The Company anticipates that it will make additional contributions of approximately $4,500 in 2009. The Company also contributed $4,847 to the SIRP during this same nine-month period. No additional SIRP contributions are expected during the remainder of 2009. Funding of the Company s U.S. qualified defined benefit pension plan was not required in 2009. However, the Company expects to make a voluntary contribution of at least $50 million to the plan before the end of 2009. The 2010 funding requirement will not be determined until the December 31, 2009 asset values are known. Based on asset values at September 27, 2009, and the expected voluntary contribution, the Company would not be required to make any contributions to the plan in 2010 due to its ability to utilize a funding standard carryover balance that exists from having previously funded the plan in excess of the minimum requirement. However, if asset values were to decline significantly during the fourth quarter of 2009, funding could be required in 2010.

Sonoco Savings Plan

The Company sponsors the Sonoco Savings Plan, a defined contribution retirement plan, for its U.S. employees. The plan provides for participant contributions of 1% to 30% of gross pay. The plan provides 100% Company matching on the first 3% of pre-tax contributions, 50% Company matching on the next 2% of pre-tax contributions and 100% immediate vesting. The Company s matching contribution to the Sonoco Savings Plan was temporarily suspended effective June 1, 2009.

Note 10: Income Taxes

On January 1, 2007, the Company adopted new U.S. GAAP related to the accounting for uncertainty in income taxes. There have been no significant changes in the Company s liability for uncertain tax positions since December 31, 2008.

The Company s effective tax rate for the three and nine-month periods ending September 27, 2009 was 25.1% and 29.0%, respectively. These rates 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, tax benefits associated with the decrease in our reserve for uncertain tax positions due to the expiration of statutes of limitation, state taxes and the effect of the manufacturer s deduction and other U.S. tax adjustments. The Company s effective tax rate for the three and nine-month periods ending September 28, 2008 was 28.8% and 29.2%, respectively. The rate for the third quarter of 2008 varied from the U.S. statutory rate primarily due to a tax benefit associated with a decrease in the Company s reserve for uncertain tax positions. This decrease resulted from the expiration of U.S. federal and state statutes of limitations. The rate for the nine months ended September 28, 2008 varied from the U.S. statutory rate due to these same factors as well as a valuation allowance recorded against the capital loss carryovers created by the impairment of financial assets and certain restructuring charges for which tax benefits could not be recognized.

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 2006. With few exceptions, the Company is no longer subject to examination prior to 2004 with respect to U.S. state and local and non-U.S. income taxes.

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

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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 April 2009, the Financial Accounting Standards Board (FASB) issued guidance for accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. This guidance modified earlier guidance to provide that contingent assets acquired or liabilities assumed in a business combination be recorded at fair value if the acquisition-date fair value can be determined during the measurement period. If not, such items would be recognized at the acquisition date if they meet the recognition requirements under GAAP for accounting for contingencies. In periods after the acquisition date, an acquirer shall account for contingent assets and liabilities that were not recognized at the acquisition date in accordance with other applicable GAAP, as appropriate. Items not recognized as part of the acquisition but recognized subsequently would be reflected in that subsequent period s income. This guidance, which was effective for the Company when issued, has no impact on the Company s current financial statements, but will apply to any future acquisitions.

In April 2009, the FASB issued guidance concerning interim disclosures about fair value of financial instruments requiring publicly traded companies to provide disclosure about the fair value of financial instruments whenever interim summarized financial information is reported. Previously, disclosures about the fair value of financial instruments were only required on an annual basis. Disclosure shall include the method(s) and significant assumptions used to estimate the fair value of financial instruments and shall describe changes in method(s) and significant assumptions, if any, during the period. This guidance was effective for interim and annual periods ending after June 15, 2009, and, as such, the Company began including this disclosure with its second quarter 2009 financial statements.

In May 2009, the FASB issued guidance regarding the disclosure of subsequent events. This guidance made no changes to current accounting but added required disclosures regarding the date through which the Company has evaluated subsequent events and whether that evaluation date is the date of financial statement issuance or the date the financial statements were available to be issued. This guidance was effective for interim and annual periods ending after June 15, 2009.

In June 2009, the FASB issued guidance changing the approach used to determine the primary beneficiary of a variable interest entity. The guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity, amends previous guidance for determining whether an entity is a variable interest entity, and adds as a reconsideration event any change in facts and circumstances where the holders of the equity investment at risk, as a group, lose the power to direct the activities of the entity that most significantly impact the entity s economic performance. In addition, the revised guidance requires enhanced disclosures regarding an enterprise s involvement in a variable interest entity. The new guidance is effective for the Company beginning January 1, 2010 and is not expected to have a material impact on the Company s financial statements.

In June 2009, the FASB issued FAS No.168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162. This statement established the FASB Accounting Standards Codification as the source of authoritative U.S.

generally accepted accounting principles (GAAP). This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Adoption of this statement did not have a material effect on the Company s financial statements.

Subsequent to the issuance of FAS No. 168, the FASB has released Accounting Standard Update Nos. 2009-01 through 2009-15. The Company has reviewed each of these updates and determined that none will have a material impact on the Company s financial statements.

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Note 12: Financial Segment Information

Sonoco reports its results in three segments, Consumer Packaging, Tubes and Cores/Paper and Packaging Services. The remaining operations are reported as All Other Sonoco.

The Consumer Packaging segment includes the following products: round and shaped rigid packaging (both composite and plastic); printed flexible packaging; and metal and peelable membrane ends and closures.

The Tubes and Cores/Paper segment includes the following products: high-performance paper and composite paperboard tubes and cores; fiber-based construction tubes and forms; pallet components; recycled paperboard, linerboard, recovered paper and other recycled materials.

The Packaging Services segment provides the following products and services: designing, manufacturing, assembling, packing and distributing temporary, semipermanent and permanent point-of-purchase displays; brand artwork management; and supply chain management services, including contract packing, fulfillment and scalable service centers.

All Other Sonoco represents the Company s businesses that do not meet the aggregation criteria for inclusion as a separate reportable segment under U.S. GAAP. All Other Sonoco includes the following products: wooden, metal and composite wire and cable reels; molded and extruded plastics; custom-designed protective packaging; and paper amenities such as coasters and glass covers.

The following table sets forth net sales, intersegment sales and operating profit for the Company s three reportable segments and All Other Sonoco. Operating profit at the segment level is defined as Income before interest and income taxes on the Company s Condensed Consolidated Statements of Income, adjusted for restructuring/asset impairment charges, which are not allocated to the reporting segments.

FINANCIAL SEGMENT INFORMATION

	Three Months Ended		**Nine Months Ended**	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Net sales:				
Consumer Packaging	$ 394,906	$ 398,825	$ 1,119,610	$ 1,184,355
Tubes and Cores/Paper	346,360	435,685	958,091	1,327,289
Packaging Services	117,211	135,122	311,577	397,648
All Other Sonoco	72,083	93,618	206,142	278,521
Consolidated	$ 930,560	$ 1,063,250	$ 2,595,420	$ 3,187,813
Intersegment sales:				
Consumer Packaging	$ 364	$ 294	$ 1,462	$ 1,463
Tubes and Cores/Paper	20,306	26,447	57,000	76,602
Packaging Services	212	151	474	243
All Other Sonoco	10,405	11,311	27,810	33,116

Consolidated	$ 31,287	$ 38,203	$ 86,746	$ 111,424
Income before income taxes:				
Operating profit				
Consumer Packaging	$ 42,049	$ 28,899	$ 120,352	$ 97,665
Tubes and Cores/Paper	21,448	41,991	48,433	116,601
Packaging Services	6,029	9,074	7,808	23,945
All Other Sonoco	5,445	11,783	17,987	35,569
Restructuring/Asset impairment charges	(158)	(5,530)	(17,754)	(77,838)
Interest, net	(9,401)	(10,629)	(29,103)	(35,954)
Consolidated	$ 65,412	$ 75,588	$ 147,723	$ 159,988

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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 purported class action by persons who bought Company stock between February 7, 2007 and September 18, 2007. That suit alleges that the market price of the stock had been inflated by allegedly false and misleading earnings projections published by the Company. 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 15 - 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 total expensed, $12,500 was recorded in 2005, and $5,150 was recorded in 2007. Through September 27, 2009, a total of $14,462 has been spent on remediation of the Site, including a settlement with a contractor who had claimed additional compensation. The Company currently estimates its share of the remaining cost of completing the Site project to be between $1,900 and $4,900. The remaining accrual of $3,188 represents the Company s 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.

In February 2007, the EPA and Wisconsin Department of Natural Resources (WDNR) 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. Although it has not accepted any liability, U.S. Mills is reviewing this information and discussing possible remediation scenarios, and the possible allocation of responsibility therefor, with other potentially responsible parties. On April 9, 2007, U.S. Mills, in conjunction with other potentially responsible parties, presented to the EPA and the WDNR a proposed schedule to mediate the allocation issues among eight potentially responsible parties, including U.S. Mills. Non-binding mediation began in May 2007 and continued as bilateral/multilateral negotiations until mid 2008. To date, no agreement among the parties has occurred.

On November 13, 2007, 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 to jointly take various actions to clean up Operating Units 2 5. The order establishes two phases of work. The first phase consists of planning and design work as well as preparation for dredging and other remediation work and initially was required to be completed by December 31, 2008. The second phase consists primarily of dredging and disposing of contaminated sediments and capping of the dredged and less contaminated areas of the river bottom. The second phase is required to begin in 2009 and is expected to continue for several years. The order also provides for a $32.5 per day penalty for failure by a respondent to comply with its terms as well as exposing a non-complying respondent to potential treble damages. Although U.S. Mills has reserved its rights

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SONOCO PRODUCTS COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)
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to contest liability for any portion of the work, it is cooperating with the other respondents to comply with the first phase of the order, although its financial contribution will likely be determined by the lawsuit commenced in June 2008.

On June 12, 2008, NCR and Appleton Papers, Inc., as plaintiffs, commenced a lawsuit 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 cleanup 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. The Company believes that this suit will have a minimal, if any, impact on the total of the potential remediation costs associated with Operating Units 2 5.

As of September 27, 2009, U.S. Mills had accrued a total of $60,825 for potential liabilities associated with the Fox River contamination (not including amounts accrued for remediation at the Site). In two separate actions during 2008, U.S. Mills increased its reserve for all Fox River related liabilities (other than the Site) from $20,000 to $60,825. Accordingly, U.S. Mills recognized additional pre-tax charges of $40,825 in 2008 for such potential liabilities. Also during 2008, settlements totaling $40,825 were reached on certain of the insurance policies covering the Fox River contamination. The recognition of these insurance settlements offset the impact to earnings of the additional charges in 2008. Through September 27, 2009, a total of $1,852, primarily legal fees, has been spent against this reserve. Although the Company lacks a reasonable basis for identifying any amount within the range of possible loss as a better estimate than any other amount, as has previously been disclosed, the upper end of the range may exceed the net worth of U.S. Mills. 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 $80,000 at September 27, 2009.

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 September 27, 2009 and December 31, 2008, the Company (and its subsidiaries) had accrued $65,366 and $70,542, respectively, related to environmental contingencies. Of these, a total of $62,161 and $67,411 relate to U.S. Mills at September 27, 2009 and December 31, 2008, respectively. These accruals are included in Accrued expenses and other on the Company s Condensed Consolidated Balance Sheets. As discussed above, U.S. Mills also recognized a $40,825 benefit from settlements reached on certain insurance policies covering the Fox River contamination. U.S Mills received all of the cash proceeds from these settlements in 2008. 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 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 September 27, 2009, and the related condensed consolidated statements of income for the three- and nine-month periods ended September 27, 2009 and September 28, 2008 and the condensed consolidated statements of cash flows for each of the nine-month periods ended September 27, 2009 and September 28, 2008. 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, 2008, and the related consolidated statements of income, shareholders equity and of cash flows for the year then ended (not presented herein), and in our report dated February 27, 2009, 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, 2008, 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
October 27, 2009

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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, anticipate, objective, goal, guidance, outlook, forecasts, future, will, would 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; 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; continued payments of dividends; stock repurchases; producing improvements in earnings, financial results for future periods, 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;

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;

Ability to maintain market share;

Pricing pressures and demand for products;

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;

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;*
- *Ability to weather the current economic downturn;*
- *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.

SONOCO PRODUCTS COMPANY

COMPANY OVERVIEW

Sonoco is a leading manufacturer of industrial and consumer packaging products and provider of packaging services, with more than 300 locations in 35 countries.

Sonoco competes in multiple product categories with the majority of its operations organized and reported in three segments: Consumer Packaging, Tubes and Cores/Paper and Packaging Services. Various other operations are reported as All Other Sonoco. 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.

Third Quarter 2009 Compared with Third Quarter 2008

RESULTS OF OPERATIONS

The following discussion provides a review of results for the three months ended September 27, 2009 versus the three months ended September 28, 2008.

OVERVIEW

Sales for the third quarter were 12% below last year s levels primarily due to lower volumes companywide, most significantly in the industrial-focused businesses, along with mostly lower selling prices, where the largest impact came from the pass-through of lower recovered paper costs. Although lower volumes and a significant increase in pension costs led to reduced overall gross profit, gross profit margins for the third quarter increased to 18.6% compared to last year s 17.4%. Margins were favorably impacted by a net positive selling price/material cost relationship, as well as cost containment actions and productivity initiatives. Net income attributable to Sonoco for the third quarter of 2009 was $47.7 million compared to $57.4 million reported for the same period of 2008. 2009 earnings include $8.3 million of higher after-tax pension expenses as well as after-tax restructuring charges of $3.2 million. Third quarter 2008 results were impacted by after-tax restructuring charges of $3.3 million.

As stated above, the Company continued to experience significant volume declines from the previous year, largely a result of the recessionary economic environment. The lower volumes resulted mostly from lower sales activity on the part of the Company s customers in their served markets and, in management s opinion, do not represent any significant loss of market share. The largest volume declines were seen in the Company s more economically-sensitive Tubes and Cores/Paper and Packaging Services segments. In order to manage the impact of these reduced volumes, the Company continues to focus on managing the selling price/material cost relationship, controlling its costs by implementing additional initiatives aimed at simplifying its business structure and creating sustainable operating efficiencies. Given the current economic environment, it is uncertain when and at what rate volume will begin to significantly recover. However, management believes that because of the Company s efforts to adjust its manufacturing footprint and drive sustainable operating efficiencies, it is positioned to effectively leverage any improvement in volumes with greater impact to its profitability. Further, due to its strong cash flow and liquidity position, the Company believes it is well situated to capitalize on any opportunities for growth.

OPERATING REVENUE

Net sales for the third quarter of 2009 were $931 million, compared to $1,063 million for the third quarter of 2008, a decrease of $133 million.

The components of the sales change were:

($ in millions)	
Volume/Mix	$ (73)
Foreign Currency Translation/Other	(38)
Selling Prices	(22)
Total Sales Decrease	$ (133)

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SONOCO PRODUCTS COMPANY

Volume/mix accounted for a 7% decrease in sales from 2008 levels as each of the Company s reporting segments experienced volume declines across nearly every geographic region, with the greatest volume declines occurring in businesses serving industrial markets, which tend to be more economically sensitive. Although average selling prices were higher in several businesses within the Consumer Packaging segment, they were more than offset by significantly lower selling prices within the Tubes and Cores/Paper segment. The higher selling prices in the Consumer Packaging segment were initiated in response to higher metal and converting costs while the lower selling prices in the Tubes and Cores/Paper segment were in response to significantly lower recovered paper costs. A stronger dollar, relative to last year s levels, also contributed significantly to the sales decline.

COSTS AND EXPENSES

Cost of sales in the third quarter of 2009 was lower year over year primarily due to the declines in volume discussed above. Last year s decline in the value of pension plan assets resulted in a significant year-over-year increase in pension and retirement plan costs. In total, these costs were up approximately $14 million in the third quarter, most of which is reflected in cost of sales. Lower prices paid for recovered paper reduced costs in our converted paper operations. However, other cost components, including metal, labor and other converting costs, experienced price increases over last year s third quarter. Productivity initiatives and cost containment activities were able to offset some of the above cost increases. In an attempt to partially offset the negative impact of lower volume and rising costs, the Company initiated several contingency actions, including freezing salaries, temporarily suspending 401(k) matches and restricting discretionary spending.

Selling, general and administrative costs were higher primarily due to higher pension and incentive compensation expenses. Incentive compensation costs booked in the current quarter reflect the year-to-date impact of better than expected operating results.

Restructuring and restructuring-related asset impairment charges totaled $0.2 million and $5.5 million for the third quarters of 2009 and 2008, respectively. Additional information regarding restructuring actions and impairments is provided in Note 3 to the Company s Condensed Consolidated Financial Statements.

Net interest expense for the third quarter of 2009 decreased to $9.4 million, compared with $10.6 million during the same period in 2008. The decrease was due to lower debt levels and lower interest rates.

This year s third quarter effective tax rate of 25.1% was lower than the 28.8% rate recorded in the 2008 quarter. The lower tax rate was primarily a result of favorable tax adjustments recorded in the quarter related to expirations of statutes of limitation and changes in the geographic distribution of earnings.

REPORTABLE SEGMENTS

The following table recaps net sales for the third quarter of 2009 and 2008 ($ in thousands):

	Three Months Ended	
	September 27, 2009	September 28, 2008
Net sales:		
Consumer Packaging	$ 394,906	$ 398,825
Tubes and Cores/ Paper	346,360	435,685
Packaging Services	117,211	135,122
All Other Sonoco	72,083	93,618
Consolidated	$ 930,560	$ 1,063,250

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SONOCO PRODUCTS COMPANY

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

	Three Months Ended	
	September 27, 2009	September 28, 2008
Income before income taxes:		
Segment operating profit		
Consumer Packaging	$ 42,049	$ 28,899
Tubes and Cores/ Paper	21,448	41,991
Packaging Services	6,029	9,074
All Other Sonoco	5,445	11,783
Restructuring/Asset impairment charges	(158)	(5,530)
Interest, net	(9,401)	(10,629)
Consolidated	$ 65,412	$ 75,588

Segment results are used by Company management to evaluate segment performance and do not include restructuring/asset impairments charges or net interest charges. Accordingly, the term segment operating profit is defined as the segment s portion of Income before income taxes excluding those items. All other general corporate expenses have been allocated as operating costs to each of the Company s reportable segments and All Other Sonoco.

Consumer Packaging

Sonoco s Consumer Packaging segment includes the following products: round and shaped rigid packaging (both composite and plastic); printed flexible packaging; and metal and peelable membrane ends and closures.

Sales in the Consumer Packaging segment during the third quarter of 2009 were basically flat when compared with the third quarter of 2008. Overall volume declines of 3% and an unfavorable $2 million effect of foreign currency translation were largely offset by higher selling prices.

Segment operating profit was up 46% in the third quarter due to productivity improvements and a favorable price/cost relationship. Partially offsetting these favorable variances were higher pension costs and the impact of lower volume.

Tubes and Cores/Paper

The Tubes and Cores/Paper segment includes the following products: high-performance paper and composite paperboard tubes and cores; fiber-based construction tubes and forms; recycled paperboard, linerboard, recovered paper and other recycled materials.

Third quarter 2009 sales for the segment dropped $89 million, or 20%, compared with the same period in 2008, due to a 9% decline in volume resulting from significantly lower global demand and a $22 million unfavorable effect from foreign currency translation. In addition, selling prices declined year over year, particularly those associated with recovered paper.

Segment operating profit fell 49% from last year s levels due to lower volume, higher pension and incentive costs, and an unfavorable price/cost relationship. The benefit of lower recovered paper costs was more than offset by reduced selling prices for those products associated with recovered paper. Lower fixed costs resulting from restructuring and other cost containment actions offset some of the decline.

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; brand artwork management; and supply chain management services, including contract packing, fulfillment and scalable service centers.

Third quarter 2009 sales for the segment decreased 13%, or $18 million, from the third quarter of 2008. The decrease was due to lower volumes in contract packing operations and a $13 million unfavorable effect of foreign currency translation.

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Segment operating profit declined 34% in the third quarter, compared with the same period in 2008. An unfavorable shift in the mix of business and higher pension costs were the primary reasons for the decline in earnings.

All Other Sonoco

All Other Sonoco includes businesses that are not aggregated in a reportable segment and includes the following products: wooden, metal and composite wire and cable reels, molded and extruded plastics, custom-designed protective packaging and paper amenities such as coasters and glass covers.

Third quarter 2009 sales in All Other Sonoco dropped 23% from the same period in 2008. Continued weak volumes in wire and cable reels, protective packaging and molded plastics was the primary reason for the decline, although lower prices also contributed.

Operating profit was down 54% from last year s third quarter due to lower volumes and higher pension costs, partially offset by productivity improvements and a favorable price/cost relationship.

Nine Months Ended September 27, 2009 Compared with Nine Months Ended September 28, 2008

RESULTS OF OPERATIONS

The following discussion provides a review of results for the nine months ended September 27, 2009 versus the nine months ended September 28, 2008.

OVERVIEW

Results for the first nine months of 2009 were affected by many of the same factors impacting the third quarter. Lower volumes companywide drove sales 19% below last year s levels, most significantly in the industrial-focused businesses. Despite these volume declines and a $40 million increase in pension costs, of which approximately 75% is included in cost of sales, gross profit margins increased to 18.2% from 17.7% in 2008. Net income attributable to Sonoco for the first nine months of 2009 was $104.4 million compared to $128.6 million reported for the same period of 2008. 2009 earnings include after-tax restructuring charges of $16.6 million. 2008 results were impacted by a $31.0 million after-tax non-cash impairment charge for the Company s remaining financial interest related to the 2003 sale of its high density film business, as well as after-tax restructuring charges of $17.7 million.

OPERATING REVENUE

Net sales for the first nine months of 2009 were $2,595 million, compared to $3,188 million for the first nine months of 2008, a decrease of $592 million.

The components of the sales change were:

($ in millions)	
Volume/Mix	$ (366)
Foreign Currency Translation/Other	(177)
Selling Prices	(49)
Total Sales Decrease	$ (592)

As discussed earlier, volume/mix and the impact of unfavorable foreign exchange translation were the major drivers in the decrease in sales from 2008 levels. Lower selling prices due to the pass-through of reduced recovered paper costs in industrial businesses were only partially offset by higher average selling prices in several consumer businesses initiated in response to higher metal and converting costs.

COSTS AND EXPENSES

Restructuring related charges totaled $17.8 million and $35.2 million for the first nine months of 2009 and 2008, respectively. In addition, 2008 results included a non-cash impairment charge of $42.7 million for the Company s remaining financial interest related to the 2003 sale of its high density film business. Additional information regarding restructuring actions is provided in Note 3 to the Company s Condensed Consolidated Financial Statements. None of these charges are allocated to the reporting segments.

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Volume declines were the largest driver of the year-to-date decrease in cost of sales. Total pension and retirement plan costs increased approximately $40 million, of which approximately 75% is included in cost of sales.

As noted above, gross profit margin improved as the benefits of a favorable year-over-year price/cost relationship, most notably in consumer-related businesses, restructuring actions taken over the last 12 months, and productivity improvements were able to offset the negative impacts of lower volume and higher pension costs. The magnitude of the price/cost spread that we have experienced so far this year is not expected to continue in 2010, although management expects that the earnings impact will be more than offset by volume increases, productivity improvements, and other cost management activities.

Selling, general and administrative costs were lower than 2008 levels primarily due to aggressive cost containment activities, including freezing salaries and temporarily suspending 401(k) matches, along with the impact of foreign currency translation. These reductions were partially offset by higher pension costs.

Net interest expense for the first nine months of 2009 decreased to $29.1 million, compared with $36.0 million during the same period in 2008. The decrease was due to lower debt levels and lower interest rates.

The effective tax rate in the first nine months of 2009 was 29.0%, versus 29.2% recorded in 2008.

REPORTABLE SEGMENTS

The following table recaps net sales for the first nine months of 2009 and 2008 ($ in thousands):

	Nine Months Ended	
	September 27, 2009	September 28, 2008
Net sales:		
Consumer Packaging	$ 1,119,610	$ 1,184,355
Tubes and Cores/ Paper	958,091	1,327,289
Packaging Services	311,577	397,648
All Other Sonoco	206,142	278,521
Consolidated	$ 2,595,420	$ 3,187,813

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

	Nine Months Ended	
	September 27, 2009	September 28, 2008
Income before income taxes:		
Segment operating profit		
Consumer Packaging	$ 120,352	$ 97,665
Tubes and Cores/ Paper	48,433	116,601
Packaging Services	7,808	23,945
All Other Sonoco	17,987	35,569
Restructuring/Asset impairment charges	(17,754)	(77,838)
Interest, net	(29,103)	(35,954)
Consolidated	$ 147,723	$ 159,988

Consumer Packaging

Sales in the Consumer Packaging segment during the first nine months of 2009 decreased $65 million, or 5%, compared with the first nine months of 2008, as a result of a 7% decline in volume and the unfavorable impact of foreign exchange. Increased selling prices partially offset these negative factors.

A 23% increase in segment operating profits was the result of a favorable price/cost relationship and productivity improvements that more than offset the impact of volume declines and higher pension costs.

SONOCO PRODUCTS COMPANY

Tubes and Cores/Paper

Year-to-date 2009 sales for the segment dropped $369 million, or 28%, compared with the same period in 2008. A volume decline of approximately 13% was the most significant driver, but the unfavorable effect of foreign currency translation also contributed notably. Lower prices, especially for products related to recovered paper also had a significant negative impact on the year-over-year sales decline.

Segment operating profit fell nearly 58% during the first nine months of 2009, compared to last year s levels. Lower volumes, higher pension costs and the unfavorable impact of foreign currency translation were the major factors in the decline. The benefits of several plant shutdowns along with other fixed cost control measures helped mitigate the impact of the volume shortfall. An unfavorable price/cost relationship in the third quarter offset the positive relationship experienced in the first half of the year. As a result, on a year-to-date basis, the price/cost relationship has been essentially neutral as the benefit of lower recovered paper costs was countered by lower prices received.

Packaging Services

Year-to-date 2009 sales for the segment decreased 22% or $86 million from 2008 levels. This decrease was due to significantly lower volume and the unfavorable effect of foreign currency translation.

Compared to the same period in 2008, segment operating profit declined 67% in the first nine months of 2009. Lower volumes and an unfavorable shift in the mix of business were the most significant factors in this decline, but higher pension costs also contributed. These negative factors were somewhat offset by the benefit of several fixed cost reduction initiatives.

All Other Sonoco

First nine months 2009 sales in All Other Sonoco dropped 26% from the same period in 2008. Continued weak volumes in wire and cable reels, protective packaging and molded plastics were the primary reasons for the decline. Operating profit was down 49% from last year s first nine months due to lower volumes and higher pension costs, partially offset by productivity improvements and a favorable price/cost relationship.

Financial Position, Liquidity and Capital Resources

The Company s financial position remained strong during the third quarter of 2009. Cash flows from operations totaled $357.8 million in the first nine months of 2009, compared with $310.2 million in the same period last year. Although year-over-year earnings were lower, the impact on operating cash flow was largely buffered by non-cash items, primarily higher non-cash pension and post retirement expenses in the current year. Operating cash flow improvements due to changes in working capital and other assets and liabilities offset a $40 million non-recurring benefit received in 2008 from insurance settlements related to an environmental claim. Operating cash flows are expected to remain strong during the fourth quarter of 2009, but at levels below those generated during the third quarter.

During the first nine months of 2009, the Company utilized cash from operations to fund capital expenditures of $82.8 million, pay dividends of $80.9 million, and reduce outstanding debt by a net $104.2 million to $591.7 million at September 27, 2009. Cash and cash equivalents increased from $101.7 million at December 31, 2008, to $194.1 million at September 27, 2009.

During the latter part of 2008, the Internal Revenue Service issued a temporary rule extending to 60 days the period that U.S. corporations may borrow funds from foreign subsidiaries without unfavorable tax consequences. The Company utilized this rule during the final two months of 2008 to access approximately $72 million of offshore cash on hand, which was used to reduce outstanding commercial paper. These short-term lending arrangements were settled early in 2009. In September, the Company again utilized this rule to access approximately $6 million of offshore cash on hand, which was used to reduce outstanding commercial paper. This short-term lending arrangement will be settled during the fourth quarter of 2009, resulting in equivalent increases in commercial paper and cash on hand. Depending on its immediate offshore cash needs, the Company may choose to again access such funds in the future as allowed by the temporary rule. At September 27, 2009, no borrowings were outstanding under the Company s $500 million

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commercial paper program. The commercial paper program is fully supported by a bank credit facility provided by a syndicate of banks that is committed until May 2011.

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 net worth, as defined. As of September 27, 2009, the Company s defined net worth was approximately $423.6 million above the minimum level required under this covenant.

Funding of the Company s U.S. qualified defined benefit pension plan was not required in 2009. However, the Company expects to make a voluntary contribution of at least $50 million to the plan before the end of 2009. The 2010 funding requirement will not be determined until the December 31, 2009 asset values are known. Based on asset values at September 27, 2009, and the expected voluntary contribution, the Company would not be required to make any contributions to the plan in 2010 due to its ability to utilize a funding standard carryover balance that exists from having previously funded the plan in excess of the minimum requirement. However, if asset values were to decline significantly during the fourth quarter of 2009, funding could be required in 2010.

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 September 27, 2009, 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 $12.3 million at September 27, 2009, and an unfavorable position of $20.5 million at December 31, 2008. Natural gas and aluminum contracts covering an equivalent of 5.7 million MMBtus and 1,903 metric tons, respectively, were outstanding at September 27, 2009. 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 1.2 million at September 27, 2009 compared with a net unfavorable position of $0.7 million at December 31, 2008. These contracts qualify as cash flow hedges and mature within twelve months of their respective reporting date.

During the third quarter the Company entered into an interest rate derivative to swap $150 million notional value of its 6.5% debentures due November 2013 to a floating rate. This is a fair value hedge that at September 27, 2009 was in an unfavorable position of $0.1 million. The Company had no interest rate swaps at December 31, 2008.

In addition, at September 27, 2009, 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 has chosen not to apply hedge accounting to these contracts. The fair value of these currency contracts, all of which mature within twelve months, was a net favorable position of $0.2 million at the end of the quarter and $6.6 million at December 31, 2008.

Restructuring and Impairment

Information regarding restructuring charges and restructuring-related asset impairment charges is provided in Note 3 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.

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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, 2008, which was filed with the Securities and Exchange Commission on February 27, 2009. There have been no other material quantitative or qualitative changes in market risk exposure since the date of that filing.

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 has been no change 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 has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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 15 - Commitments and Contingencies) in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, and in Part I Item 1 Financial Statements (Note 13 Commitments and Contingencies) of this report. 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 the Company currently estimates to be between $32.7 million and $38.7 million for the project as a whole. The actual costs associated with cleanup of this particular site are dependent upon many factors and it is reasonably possible that remediation costs could be higher 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.

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In addition to the Site discussed above, as previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2008, 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 April 9, 2007, U.S. Mills, in conjunction with other potentially responsible parties (PRPs), presented to the U.S. Environmental Protection Agency and the Wisconsin Department of Natural Resources a proposed schedule to mediate the allocation issues among eight PRPs, including U.S. Mills. Non-binding mediation began in May 2007 and continued as bilateral/multilateral negotiations although no agreement among the parties occurred. On June 12, 2008, NCR and Appleton Papers, Inc., 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. The court has initially limited discovery to information regarding when each party knew, or should have known, that recycling NCR-brand carbonless paper would result in the discharge of PCBs to a water body and what action, if any, each party took to avoid the risk of further contamination. The court has set a trial date for those issues only for January 4, 2010. U.S. Mills plans to vigorously defend the suit.

As of September 27, 2009, U.S. Mills had accrued a total of $60.8 million for potential liabilities associated with the Fox River contamination (not including amounts accrued for remediation at the Site). In two separate actions during 2008, U.S. Mills increased its reserve for all Fox River related liabilities (other than the Site) from $20.0 million to $60.8 million. Accordingly, U.S. Mills recognized additional pre-tax charges of $40.8 million in 2008 for such potential liabilities. Also during 2008, settlements totaling $40.8 million were reached on certain of the insurance policies covering the Fox River contamination. The recognition of these insurance settlements effectively offset the impact to earnings of the additional charges in 2008. Although the Company lacks a reasonable basis for identifying any amount within the range of possible loss as a better estimate than any other amount, as has previously been disclosed, the upper end of the range may exceed the net worth of U.S. Mills. 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 $80 million at September 27, 2009.

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. The suit purports to be 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 alleges that the Company issued press releases and made public statements during the class period that were materially false and misleading because the Company allegedly had no reasonable basis for the earnings projections contained in the press releases and statements, and that such information caused the market price of the Company s common stock to be artificially inflated. The complaint also names certain Company officers as defendants and seeks an unspecified amount of damages plus interest and attorneys fees. The Company believes that the claims are without merit and intends to vigorously defend itself against the suit.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period		(a) Total Number of Shares Purchased[1]	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	(d) Maximum Number of Shares that May Yet be Purchased under the Plans or Programs[2]
6/29/09	8/02/09				5,000,000
8/03/09	8/30/09				5,000,000
8/31/09	9/27/09	3,762	$ 27.62		5,000,000
Total		3,762	$ 27.62		5,000,000

1 All of the share purchases in the third quarter of 2009 relate to shares withheld to satisfy employee tax withholding obligations in association with the exercise of performance-based stock awards, deferred compensation and restricted stock. 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. No shares have been repurchased under this authorization during 2009. At September 27, 2009, a total of 5,000,000 shares remain available for repurchase.

Item 6. Exhibits.

Exhibit 15	Letter re: unaudited interim financial information
Exhibit 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)
Exhibit 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)

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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: October 27, 2009

By: /s/ Charles J. Hupfer
Charles J. Hupfer
Senior Vice President and Chief Financial Officer
(principal financial officer)

By: /s/ Barry L. Saunders
Barry L. Saunders
Vice President and Corporate Controller
(principal accounting officer)

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EXHIBIT INDEX

Exhibit Number	Description
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)