

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from _____ to _____

Commission File No. 0-516

SONOCO PRODUCTS COMPANY

Incorporated under the laws
of South Carolina

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

1 N. Second St.

Hartsville, South Carolina 29550

Telephone: 843/383-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock at October 19, 2012:

Common stock, no par value: 100,740,994

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Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. Financial Statements.****SONOCO PRODUCTS COMPANY****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

(Dollars and shares in thousands)

	September 30, 2012	December 31, 2011*
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 201,143	\$ 175,523
Trade accounts receivable, net of allowances	673,629	606,785
Other receivables	37,361	43,378
Inventories:		
Finished and in process	166,943	157,891
Materials and supplies	228,012	237,431
Prepaid expenses	47,447	65,227
Deferred income taxes	24,576	26,806
	1,379,111	1,313,041
Property, Plant and Equipment, Net	1,034,889	1,013,622
Goodwill	1,110,994	1,105,000
Other Intangible Assets, Net	284,085	304,600
Long-term Deferred Income Taxes	79,129	86,160
Other Assets	168,094	170,835
Total Assets	\$ 4,056,302	\$ 3,993,258
<u>Liabilities and Equity</u>		
Current Liabilities		
Payable to suppliers	\$ 463,705	\$ 436,732
Accrued expenses and other	354,736	347,622
Notes payable and current portion of long-term debt	32,368	53,666
Accrued taxes	9,262	5,551
	860,071	843,571
Long-term Debt, Net of Current Portion	1,204,105	1,232,966
Pension and Other Postretirement Benefits	386,827	420,048
Deferred Income Taxes	15,402	16,794
Other Liabilities	54,115	54,471
Commitments and Contingencies		
Sonoco Shareholders' Equity		
Common stock, no par value		
Authorized 300,000 shares		
100,699 and 100,211 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	7,175	7,175
Capital in excess of stated value	440,654	427,484
Accumulated other comprehensive loss	(426,118)	(460,299)

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Retained earnings		1,499,976	1,437,435
Total Sonoco Shareholders Equity		1,521,687	1,411,795
Noncontrolling Interests		14,095	13,613
Total Equity		1,535,782	1,425,408
Total Liabilities and Equity		\$ 4,056,302	\$ 3,993,258

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

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**SONOCO PRODUCTS COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF INCOME** (unaudited)

(Dollars and shares in thousands except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Net sales	\$ 1,195,530	\$ 1,124,171	\$ 3,610,259	\$ 3,369,359
Cost of sales	989,301	937,431	2,970,627	2,797,320
Gross profit	206,229	186,740	639,632	572,039
Selling, general and administrative expenses	110,330	89,924	351,690	291,495
Restructuring/Asset impairment charges	(444)	12,048	24,164	23,943
Income before interest and income taxes	96,343	84,768	263,778	256,601
Interest expense	15,908	9,287	48,379	27,996
Interest income	1,056	953	2,858	2,751
Income before income taxes	81,491	76,434	218,257	231,356
Provision for income taxes	25,399	2,344	73,201	51,303
Income before equity in earnings of affiliates	56,092	74,090	145,056	180,053
Equity in earnings of affiliates, net of tax	2,937	3,083	8,236	8,463
Net income	\$ 59,029	\$ 77,173	\$ 153,292	\$ 188,516
Net loss/(income) attributable to noncontrolling interests	\$ (193)	\$ 30	\$ (65)	\$ (514)
Net income attributable to Sonoco	\$ 58,836	\$ 77,203	\$ 153,227	\$ 188,002
Weighted average common shares outstanding:				
Basic	101,892	101,004	101,745	101,027
Diluted	102,544	101,959	102,548	102,200
Per common share:				
Net income attributable to Sonoco:				
Basic	\$ 0.58	\$ 0.76	\$ 1.51	\$ 1.86

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Diluted	\$	0.57	\$	0.76	\$	1.49	\$	1.84
Cash dividends	\$	0.30	\$	0.29	\$	0.89	\$	0.86

See accompanying Notes to Condensed Consolidated Financial Statements

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SONOCO PRODUCTS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (unaudited)

(Dollars in thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Net income	\$ 59,029	\$ 77,173	\$ 153,292	\$ 188,516
Other comprehensive income/(loss):				
Foreign currency translation adjustments	38,718	(93,885)	20,909	(36,252)
Changes in defined benefit plans, net of tax	(1,660)	(7,998)	8,287	(2,612)
Changes in derivative financial instruments, net of tax	3,274	(2,222)	4,985	1,495
Comprehensive income/(loss)	99,361	(26,932)	187,473	151,147
Comprehensive (income)/loss attributable to noncontrolling interests	(193)	30	(65)	(514)
Comprehensive income/(loss) attributable to Sonoco	\$ 99,168	\$ (26,902)	\$ 187,408	\$ 150,633

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**SONOCO PRODUCTS COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS** (unaudited)

(Dollars in thousands)

	Nine Months Ended	
	September 30, 2012	October 2, 2011
Cash Flows from Operating Activities:		
Net income	\$ 153,292	\$ 188,516
Adjustments to reconcile net income to net cash provided by operating activities:		
Asset impairment	5,876	9,005
Depreciation, depletion and amortization	149,159	131,611
Share-based compensation expense	6,472	10,039
Equity in earnings of affiliates	(8,236)	(8,463)
Cash dividends from affiliated companies	5,870	2,990
(Gain) loss on disposition of assets	(4,390)	258
Pension and postretirement plan expense	39,806	26,879
Pension and postretirement plan contributions	(64,080)	(123,691)
Tax effect of share-based compensation exercises	4,103	4,614
Excess tax benefit of share-based compensation	(1,867)	(3,248)
Net decrease in deferred taxes	(1,487)	(7,524)
Change in assets and liabilities, net of effects from acquisitions, dispositions, and foreign currency adjustments:		
Trade accounts receivable	(56,641)	(96,426)
Inventories	3,246	(31,311)
Payable to suppliers	25,565	24,595
Prepaid expenses	(3,558)	(5,689)
Accrued expenses	10,062	3,422
Income taxes payable and other income tax items	22,366	7,997
Fox River environmental reserves	(1,320)	(1,379)
Other assets and liabilities	12,285	(287)
Net cash provided by operating activities	296,523	131,908
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(158,213)	(124,486)
Cost of acquisitions, exclusive of cash	(503)	(10,918)
Proceeds from the sale of assets	16,096	9,796
Net cash used in investing activities	(142,620)	(125,608)
Cash Flows from Financing Activities:		
Proceeds from issuance of debt	5,678	11,560
Principal repayment of debt	(38,771)	(9,620)
Net (decrease) increase in commercial paper	(17,000)	113,000
Net change in overdrafts	469	(7,188)
Excess tax benefit of share-based compensation	1,867	3,248
Cash dividends	(89,537)	(85,955)
Purchase of noncontrolling interest	-	(5,718)
Shares acquired	(3,437)	(48,444)
Shares issued	7,153	16,146

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Net cash used in financing activities	(133,578)	(12,971)
Effects of Exchange Rate Changes on Cash	5,295	(5,289)
Net Increase (Decrease) in Cash and Cash Equivalents	25,620	(11,960)
Cash and cash equivalents at beginning of period	175,523	158,249
Cash and cash equivalents at end of period	\$ 201,143	\$ 146,289

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**SONOCO PRODUCTS COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

Note 1: Basis of Interim Presentation

In the opinion of the management of Sonoco Products Company (the Company or Sonoco), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments, unless otherwise stated) necessary to state fairly the consolidated financial position, results of operations and cash flows for the interim periods reported herein. Operating results for the three and nine months ended September 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

With respect to the unaudited condensed consolidated financial information of the Company for the three- and nine-month periods ended September 30, 2012 and October 2, 2011 included in this Form 10-Q, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated November 1, 2012 appearing herein, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a report or a part of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

Note 2: Shareholders Equity
Earnings per Share

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Numerator:				
Net income attributable to Sonoco	\$ 58,836	\$ 77,203	\$ 153,227	\$ 188,002
Denominator:				
Weighted average common shares outstanding:				
Basic	101,892,000	101,004,000	101,745,000	101,027,000
Dilutive effect of stock-based compensation	652,000	955,000	803,000	1,173,000
Diluted	102,544,000	101,959,000	102,548,000	102,200,000

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Reported net income attributable to
Sonoco per common share:

Basic	\$	0.58	\$	0.76	\$	1.51	\$	1.86
Diluted	\$	0.57	\$	0.76	\$	1.49	\$	1.84

Stock options and stock appreciation rights covering 2,453,745 and 2,462,878 shares, respectively, were not dilutive during the three and nine-month periods ended September 30, 2012, and are therefore excluded from the computations of diluted income attributable to Sonoco per common share. The comparable figures for the three and nine-month periods ended October 2, 2011 were 1,753,351 and 1,379,167 shares, respectively. 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 purchased under this authorization during the first nine months of 2012; accordingly, at September 30, 2012, a total of 5,000,000 shares remain available for repurchase.

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SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(unaudited)

The Company frequently repurchases shares of its common stock to satisfy employee tax withholding obligations in association with the exercise of certain share-based compensation awards. These repurchases, which are not part of a publicly announced plan or program, totaled 103,209 shares in the first nine months of 2012 at a cost of \$3,437, and 62,569 shares in the first nine months of 2011 at a cost of \$2,146.

Dividend Declarations

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

On October 15, 2012, the Board of Directors declared a regular quarterly dividend of \$0.30 per share. This dividend is payable December 10, 2012 to all shareholders of record as of November 16, 2012.

Note 3: Acquisitions

On November 8, 2011, the Company completed the acquisition of Tegrant Holding Corporation (Tegrant), a leading provider of highly engineered protective, temperature-assured and retail security packaging solutions. The cost of the Tegrant acquisition was \$550,000 in cash paid at the time of the purchase plus an additional \$503 paid in February 2012 for changes in working capital levels to the date of the closing. As the acquisition was completed near the end of the year, the allocation of the purchase price reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, was based on provisional estimates of the fair value of the tangible and intangible assets acquired and liabilities assumed. During the first nine months of 2012, the Company substantially finalized its valuations of the acquired assets and liabilities based on information obtained about facts and circumstances that existed as of the acquisition date. As a result, adjustments were made to the provisional fair values that reduced property, plant and equipment by \$(6,669), increased goodwill by \$1,316, increased other intangible assets (customer lists) by \$4,900, increased long-term deferred income tax assets by \$7,291, increased trade accounts receivable by \$750, decreased inventories by \$(500), and increased accrued expenses by \$7,088. The amounts shown in the Company's Condensed Consolidated Balance Sheet as of December 31, 2011, have been adjusted to reflect these changes. The impact of the changes on the Company's fiscal 2011 and 2012 results of operations was insignificant; accordingly, previously reported results have not been changed. The Company is finalizing the assessment of the valuation of certain assets and liabilities and will complete the valuation of all remaining assets and liabilities within 12 months from the date of the acquisition. Further adjustments, if any, are expected to be insignificant.

Note 4: Restructuring and Asset Impairment

The Company has engaged in a number of restructuring actions over the past several years. Actions initiated in 2012 and 2011 are reported as 2012 Actions and 2011 Actions, respectively. Actions initiated prior to 2011, all of which were substantially complete at September 30, 2012, are reported as 2010 and Earlier Actions.

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

2012

2011

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	Third Quarter	Nine Months	Third Quarter	Nine Months
Restructuring/Asset impairment:				
2012 Actions	\$ 2,014	\$ 19,116	\$	\$
2011 Actions	(2,036)	5,244	11,660	22,297
2010 and Earlier Actions	(422)	(196)	388	1,646
Restructuring/Asset impairment(credits)/charges	\$ (444)	\$ 24,164	\$ 12,048	\$ 23,943
Income tax benefit	(126)	(5,912)	(4,831)	(8,470)
Equity method investments, net of tax		22		17
Costs attributable to Noncontrolling Interests, net of tax	31	104	78	148
Total impact of Restructuring/Asset impairment (credits)/charges, net of tax	\$ (539)	\$ 18,378	\$ 7,295	\$ 15,638

Table of Contents**SONOCO PRODUCTS COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

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

The Company expects to recognize future additional charges totaling approximately \$7,500 in connection with previously announced restructuring actions and believes that the majority of these charges will be incurred and paid by the end of 2012. The Company continually evaluates its cost structure, including its manufacturing capacity, and additional restructuring actions may be undertaken.

2012 Actions

During 2012, the Company announced the planned closures of a paper mill in Germany (part of the Paper and Industrial Converted Products segment) and a paperboard based protective packaging operation in the United States (part of the Protective Packaging segment). In addition, the Company continued its manufacturing rationalization efforts in its blow-molding businesses (part of the Consumer Packaging segment), including the planned closure of a facility in Canada, and realigned its cost structure resulting in the elimination of approximately 100 positions.

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

<u>2012 Actions</u>	<u>Third Quarter</u>	<u>Total Incurred to Date</u>	<u>Estimated Total Cost</u>
Severance and Termination Benefits			
Paper and Industrial Converted Products	\$ 541	\$ 8,146	\$ 8,646
Consumer Packaging	407	1,509	1,659
Packaging Services		285	285
Protective Packaging	101	1,464	1,464
Asset Impairment / Disposal of Assets			
Paper and Industrial Converted Products	(18)	2,233	2,233
Consumer Packaging	175	3,470	3,470
Protective Packaging		161	161
Other Costs			
Paper and Industrial Converted Products	319	836	1,036
Consumer Packaging	263	588	1,088
Packaging Services	11	11	11
Protective Packaging	215	413	563
Total Charges and Adjustments	\$ 2,014	\$ 19,116	\$ 20,616

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

<u>2012 Actions</u>	Severance	Asset	Other Costs	Total
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Accrual Activity	and		Impairment/	
2012 Year to Date	Termination	Disposal		
	Benefits	of Assets		
Liability at December 31, 2011	\$	\$	\$	\$
2012 charges	11,404	5,864	1,848	19,116
Cash payments	(7,509)	&nbs		