SONOCO PRODUCTS CO
Form 10-K
February 26, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2009

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	1 N. Second St. Hartsville, SC 29550 Telephone: 843/383-7000	I.R.S. Employer Identification No. 57-0248420

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
No par value common stock	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted to 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 ¨ (not applicable to registrant during the preceding 12 months)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

The aggregate market value of voting common stock held by nonaffiliates of the registrant (based on the New York Stock Exchange closing price) on June 28, 2009, which was the last business day of the registrant s most recently completed second fiscal quarter, was $2,273,454,192. Registrant does not (and did not at June 28, 2009) have any non-voting common stock outstanding.

As of February 19, 2010, there were 100,257,297 shares of no par value common stock outstanding.

Documents Incorporated by Reference

Portions of the Proxy Statement for the annual meeting of shareholders to be held on April 21, 2010, which statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates, are incorporated by reference in Part III.

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n **SONOCO** PRODUCTS COMPANY

FORWARD-LOOKING STATEMENTS

Statements included in this Annual Report on Form 10-K 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 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; sales growth; 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 suppliers in needed amounts and/or on reasonable terms;
- fluctuations in obligations and earnings of pension and postretirement benefit plans;
- pricing pressures, demand for products, and ability to maintain market share;
- continued strength of our paperboard-based tubes and cores and composite can operations;
- anticipated results of restructuring activities;
- resolution of income tax contingencies;
- ability to successfully integrate newly acquired businesses into the Company s operations;
- ability to win new business and/or identify and successfully close suitable acquisitions at the levels needed to meet growth targets;
- rate of growth in foreign markets;
- foreign currency, interest rate and commodity price risk, and the effectiveness of related hedges;
- actions of government agencies and changes in laws and regulations affecting the Company;
- liability for and anticipated costs of environmental remediation actions;

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 Annual Report on Form 10-K might not occur.

REFERENCES TO OUR WEB SITE ADDRESS

References to our Web site address and domain names throughout this Annual Report on Form 10-K are for informational purposes only, or to fulfill specific disclosure requirements of the Securities and Exchange Commission s rules or the New York Stock Exchange Listing Standards. These references are not intended to, and do not, incorporate the contents of our Web sites by reference into this Annual Report on Form 10-K.

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n PART I

ITEM 1. BUSINESS

(A) GENERAL DEVELOPMENT OF BUSINESS

The Company is a South Carolina corporation founded in Hartsville, South Carolina, in 1899 as the Southern Novelty Company. The name was subsequently changed to Sonoco Products Company (the Company or Sonoco). Sonoco is a manufacturer of industrial and consumer packaging products and a provider of packaging services, with 312 locations in 35 countries.

Information about the Company s acquisitions, dispositions, joint ventures and restructuring activities is provided in Notes 2 and 3 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

(B) FINANCIAL INFORMATION ABOUT SEGMENTS

Information about the Company s reportable segments is provided in Note 16 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

(C) NARRATIVE DESCRIPTION OF BUSINESS

Products and Services The following discussion outlines the principal products produced and services provided by the Company.

Consumer Packaging

The Consumer Packaging segment accounted for approximately 43%, 38% and 36% of the Company s consolidated net sales in 2009, 2008 and 2007, respectively. The operations in this segment consist of 63 plants throughout the world. The products, services and markets of the Consumer Packaging segment are as follows:

Rigid Packaging Paper	
Products and Services	*Markets*
Round and shaped composite paperboard cans, single-wrap paperboard packages, fiber cartridges	Food: Powdered beverages and infant formulas, cereal, coffee, snacks, nuts, cookies and crackers, confectionery, frozen concentrates, refrigerated dough, spices/seasonings, nutritional supplements, pet foods
	Nonfood: Adhesives, caulks, cleansers, chemicals, lawn and garden, automotive, pet products
Rigid Packaging Blow Molded Plastics	
Products and Services	*Markets*
Monolayer and multilayer bottles and jars	Food: Noncarbonated high-barrier beverages/ready-to-drink products, condiments
	Nonfood: Health and beauty, household chemicals, automotive, adhesives and specialty products

Rigid Packaging Thermoformed Plastic

Products and Services	*Markets*
Monolayer, coated and barrier and non-barrier laminated tubs, cups, consumer and institutional trays	Processed foods, sauces and dips, pet foods, snacks and nuts, fresh-cut produce, desserts

Ends and Closures

Products and Services	*Markets*
Aluminum, steel and peelable membrane easy-open closures for composite, metal and plastic containers	Pet food, vegetables, fruit, seafood, poultry, soup and pasta, dairy, powdered infant formula, coffee

Printed Flexible Packaging

Products and Services	*Markets*
Flexible packaging made from thin-gauge, value-added rotogravure, flexographic and combination printed film including high-performance laminations, rotogravure cylinder engraving, global brand artwork management	Confectionery and gum, hard-baked goods, coffee, processed foods, beverages, snack foods, pet foods, home and personal care

Sonoco s rigid packaging - paper products are the Company s second largest revenue-producing group of products and services, representing approximately 23%, 20% and 19% of consolidated net sales in 2009, 2008 and 2007, respectively.

Tubes and Cores/Paper

The Tubes and Cores/Paper segment accounted for approximately 37%, 41% and 42% of the Company s consolidated net sales in 2009, 2008 and 2007, respectively. This segment serves its markets through 166 plants on five continents. Sonoco s paper operations provide the primary raw material for the Company s fiber-based packaging. Sonoco uses approximately 60% of the paper it manufactures, and the remainder is sold to third parties. This vertical integration strategy is supported by 21 paper mills with 31 paper machines and 48 recycling facilities throughout the world. In 2009, Sonoco had the capacity to manufacture approximately 1.8 million tons of recycled paperboard. The products, services and markets of the Tubes and Cores/Paper segment are as follows:

Tubes and Cores

Products and Services	*Markets*
Paperboard tubes, cores, roll packaging, molded plugs, pallets, pallet components, concrete forms, void forms, rotary die boards	Construction, film, flowable products, metal, paper mill, shipping and storage, tape and label, textiles, converters

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Paper	
Products and Services	*Markets*
Recycled paperboard, chipboard, tubeboard, lightweight corestock, boxboard, linerboard, corrugating medium, specialty grades, recovered paper	Converted paper products, spiral winders, beverage insulators
Sonoco Recycling	
Products and Services	*Markets*
Recycler of old corrugated containers, paper, plastic, metal, glass and other recyclable materials	Domestic and international basic materials manufacturers that produce recycled products

Sonoco s tubes and cores products and services are the Company s largest revenue-producing group of products and services, representing approximately 28%, 30% and 31% of consolidated net sales in 2009, 2008 and 2007, respectively.

Packaging Services

The Packaging Services segment accounted for approximately 12%, 12% and 13% of the Company s consolidated net sales in 2009, 2008 and 2007, respectively. The products, services and markets of the Packaging Services segment are as follows:

Service Centers	
Products and Services	*Markets*
Packaging supply chain management, including custom packing, fulfillment, primary package filling, scalable service centers	Personal care, baby care, beauty, healthcare, food, electronics, hosiery, office supplies, toys
Point-of-Purchase (P-O-P)	
Products and Services	*Markets*
Designing, manufacturing, assembling, packing and distributing temporary, semipermanent and permanent P-O-P displays, as well as contract packaging, co-packing and fulfillment services	Automotive, beverages, confectionery, electronics, cosmetics, food, fragrances, healthcare, home and garden, liquor, medical, office supply, over-the-counter drugs, personal care, sporting goods, tobacco

All Other Sonoco

All Other Sonoco accounted for approximately 8%, 9% and 9% of the Company s consolidated net sales in 2009, 2008 and 2007, respectively. In addition to the products and services outlined in each of the segments above, the Company produces the following products:

Wire and Cable Reels	
Products and Services	*Markets*
Steel, nailed wooden, plywood, recycled and polyfiber reels	Wire and cable manufacturers
Molded and Extruded Plastics	
Products and Services	*Markets*
Product design, tool design and fabrication; spools; manufacturing in both injection molding and extrusion technologies	Consumer: Food, food service, medical devices and disposables Industrial: Textiles, wire and cable, fiber optics, filtration and automotive
Paperboard Specialties	
Products and Services	*Markets*
Custom-printed Stancap® glass covers, Rixie coasters, other paper amenities	Hotels and resorts, food and beverage, healthcare facilities, catering services, transportation, advertising

Protective Packaging

Products and Services	*Markets*
Proprietary Sonopost® technology, Sonobase® carriers and Sonopop® systems, concept, design, testing and manufacturing of multimaterial total solutions packaging, on-site engineering, ISTA- and Sears-certified engineering and testing facilities, contract testing facilities	Household appliances, heating and air conditioning, office furnishings, automotive, fitness equipment, lawn and garden, promotional and palletized distribution

Product Distribution   Each of the Company s operating units has its own sales staff, and maintains direct sales relationships with its customers. For those customers that buy from more than one business unit, the Company often assigns a single representative or team of specialists to handle that customer s needs. Some of the units have service staff at the manufacturing facility that interacts directly with customers. The Tubes and Cores/Paper segment also has a customer service center located in Hartsville, South Carolina, which is the main contact point between its North American business units and its customers. Divisional sales personnel also provide sales management, marketing and product development assistance as needed. Typically, product distribution is directly from the manufacturing plant to the

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customer, but in some cases, product is warehoused in a mutually advantageous location to be shipped to the customer as needed.

Raw Materials The principal raw materials used by the Company are recovered paper, paperboard, steel, aluminum and plastic resins. Raw materials are purchased from a number of outside sources. The Company considers the supply and availability of raw materials to be adequate to meet its needs.

Patents, Trademarks and Related Contracts Most inventions and product and process innovations are generated by Sonoco s development and engineering staff, and are important to the Company s internal growth. Patents have been granted on many inventions created by Sonoco staff in the United States and other countries. These patents are managed globally by a Sonoco intellectual capital management team through the Company s subsidiary, Sonoco Development, Inc. (SDI). SDI globally manages patents, trade secrets, confidentiality agreements and license agreements. Some patents have been licensed to other manufacturers. Sonoco also licenses a few patents from outside companies and universities. U.S. patents expire after 17 or 20 years, depending on the patent issue date. New patents replace many of the abandoned or expired patents. A second intellectual capital subsidiary of Sonoco, SPC Resources, Inc., globally manages Sonoco s trademarks, service marks, copyrights and Internet domain names. Most of Sonoco s products are marketed worldwide under trademarks such as Sonoco®, Sonotube®, Safe-top®, Sealed-safe®, Duro® and Durox®. Sonoco s registered Web domain names such as *www.sonoco.com* and *www.sonotube.com* provide information about Sonoco, its people and products. Trademarks and domain names are licensed to outside companies where appropriate.

Seasonality The Company s operations are not seasonal to any significant degree, although the Consumer Packaging and Packaging Services segments normally report slightly higher sales and operating profits in the second half of the year, when compared to the first half.

Working Capital Practices The Company is not required to carry any significant amounts of inventory to meet customer requirements or to assure itself continuous allotment of goods, nor does it provide extended terms to customers.

Dependence on Customers On an aggregate basis during 2009, the five largest customers in the Tubes and Cores/Paper segment accounted for approximately 9% of that segment s sales, and the five largest customers in the Consumer Packaging segment accounted for approximately 32% of that segment s sales. The dependence on a few customers in the Packaging Services segment is more significant as the five largest customers in this segment accounted for approximately 74% of that segment s sales.

Sales to Procter & Gamble, the Company s largest customer, represented approximately 12% of the Company s consolidated revenues in 2009. In addition, this concentration of sales volume resulted in a corresponding concentration of credit, representing approximately 11% of the Company s consolidated trade accounts receivable at December 31, 2009. No other customer comprised more than 5% of the Company s consolidated revenues in 2009 or accounts receivable at December 31, 2009.

Backlog Most customer orders are manufactured with a lead time of three weeks or less. Therefore, the amount of backlog orders at December 31, 2009 was not material. The Company expects all backlog orders at December 31, 2009 to be shipped during 2010.

Competition The Company sells its products in highly competitive markets, which include paper, textile, film, food, chemical, packaging, construction, and wire and cable. All of these markets are influenced by the overall rate of economic activity and their behavior is principally driven by supply and demand. Because we operate in highly competitive markets, we regularly bid for new and continuing business. Losses and/or awards of business from our largest customers, customer changes to alternative forms of packaging, and the repricing of business, can have a significant effect on our operating results. The Company manufactures and sells many of its products globally. The Company, having operated internationally since 1923, considers its ability to serve its customers worldwide in a timely and consistent manner a competitive advantage. The Company also believes that its technological leadership, reputation for quality, and vertical integration are competitive advantages. Expansion of the Company s product lines and global presence is driven by the rapidly changing needs of its major customers, who demand high-quality, state-of-the-art, environmentally compatible packaging, wherever they choose to do business. It is important to be a low-cost producer in order to compete effectively. The Company is constantly focused on productivity improvements and other cost-reduction initiatives utilizing the latest in technology.

Research and Development Company-sponsored research and development expenses totaled approximately $12.4 million in 2009, $15.9 million in 2008, and $15.6 million in 2007. Customer-sponsored research and development expenses were not material in any of these periods. Significant projects in Sonoco s Tubes and Cores/Paper segment during 2009 included efforts to design and develop new products for the construction industry and for the film and tape industries. In addition, efforts were focused on enhancing performance characteristics of the Company s tubes and cores in the textile, film and paper packaging areas, as well as on projects aimed at enhancing productivity. During 2009, the Consumer Packaging segment continued to invest in a broad range of cost-reduction projects, high-value flexible packaging enhancements, rigid plastic containers technology and next-generation composite packaging.

Compliance with Environmental Laws Information regarding compliance with environmental laws is provided in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Risk Management, and in Note 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Number of Employees Sonoco had approximately 16,500 employees worldwide as of December 31, 2009.

(D) FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

Financial information about geographic areas is provided in Note 16 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, and in the information about market risk in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Risk Management of this Annual Report on Form 10-K.

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(E) AVAILABLE INFORMATION

The Company electronically files with the Securities and Exchange Commission (SEC) its annual reports on Form 10-K, its quarterly reports on Form 10-Q, its periodic reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 (the 1934 Act), and proxy materials pursuant to Section 14 of the 1934 Act. The SEC maintains a site on the Internet, *www.sec.gov*, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Sonoco also makes its filings available, free of charge, through its Web site, *www.sonoco.com*, as soon as reasonably practical after the electronic filing of such material with the SEC.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	*Age*	*Position and Business Experience for the Past Five Years*
Executive Committee		
Harris E. DeLoach, Jr.	65	Chairman of the Board, President and Chief Executive Officer since 2005. Previously President and Chief Executive Officer 2000-2005; Chief Operating Officer April-July 2000; Sr. Executive Vice President, Global Industrial Products/ Paper/Molded Plastics 1999-2000; Executive Vice President, High Density Film, Industrial Container, Fibre Partitions, Protective Packaging, Sonoco Crellin and Baker Reels 1996-1999. Joined Sonoco in 1985. Currently a director of Goodrich Corporation and Progress Energy, Inc.
M. Jack Sanders	56	Executive Vice President, Consumer since January 2010. Previously Executive Vice President, Industrial 2008-2010; Sr. Vice President, Global Industrial Products 2006-2008; Vice President, Global Industrial Products January 2006-October 2006; Vice President, Industrial Products, N.A. 2001-2006; Division Vice President/General Manager, Protective Packaging 1998-2001. Joined Sonoco in 1987.
Charles L. Sullivan, Jr.	66	Executive Vice President, Consumer since 2005. Previously Sr. Vice President 2000-2005. Joined Sonoco in 2000. Retiring from the Company effective March 31, 2010.
Jim C. Bowen	59	Sr. Vice President, Primary Materials Group since September 2009. Previously Sr. Vice President, Sonoco Recycling and Internal Supply 2008-2009; Sr. Vice President 2002-2008; Sr. Vice President, Global Paper Operations 2000-2002; Vice President/General Manager Paper 1997-2000. Joined Sonoco in 1972.
Cynthia A. Hartley	61	Sr. Vice President, Human Resources since 2002. Previously Vice President, Human Resources 1995-2002. Joined Sonoco in 1995.
Charles J. Hupfer	63	Sr. Vice President and Chief Financial Officer since February 2009. Previously Sr. Vice President, Chief Financial Officer and Corporate Secretary 2005-2009; Vice President, Chief Financial Officer and Corporate Secretary 2002-2005; Vice President, Treasurer and Corporate Secretary 1995-2002. Joined Sonoco in 1975.
Eddie L. Smith	58	Vice President, Europe since 2008. Previously Vice President, Industrial Products and Paper, Europe 2006-2008; Vice President, Customer and Business Development 2002-2006; Vice President/General Manager, Flexible Packaging 1998-2002. Joined Sonoco in 1971.
Other Corporate Officers		
Vicki B. Arthur	52	

		Vice President, Global Corporate Accounts since 2008. Previously Division Vice President, Global Corporate Accounts 2007-2008; Division Vice President and General Manager Kraft 2005-2007; Staff Vice President and Treasurer 2002-2005. Joined Sonoco in 1984.
Ritchie L. Bond	53	Staff Vice President, Treasurer and Corporate Secretary since February 2009. Previously Staff Vice President and Treasurer 2005-2009. Joined Sonoco in 2005.
Bernard W. Campbell	60	Vice President and Chief Information Officer since 1996. Joined Sonoco in 1988.
R. Howard Coker	47	Vice President and General Manager, Rigid Paper and Closures, N.A. since February 2009. Previously Division Vice President and General Manager, Rigid Paper and Closures 2008-February 2009; Division Vice President and General Manager, Sonoco Phoenix 2006-2008; Director of Sales 2002-2005. Joined Sonoco in 1985.

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Name	*Age*	*Position and Business Experience for the Past Five Years*
John M. Colyer, Jr	49	Vice President, Global Industrial Converting since January 2010. Previously, Vice President North American Converted Products 2009-2010; Vice President, Industrial Converted Products, N.A. 2008-2009; Division Vice President and General Manager, Industrial Products Division, N.A. 2006-2008; Division Vice President of Manufacturing, Industrial Products Division 2004-2005. Joined Sonoco in 1983.
Rodger D. Fuller	48	Vice President, Global Rigid Paper and Closures since 2008. Previously Vice President, Rigid Paper and Plastics, N.A. 2005-2008; Vice President and General Manager, Consumer Products N.A. 1997-2005. Joined Sonoco in 1985.
James A. Harrell, III	48	Vice President, North American Industrial Carriers since February 2010. Previously Vice President and General Manager, Industrial Converted Products 2009-2010; Division Vice President and General Manager, Paper, N.A. 2008-2009; Staff Vice President Global Operating Excellence, Industrial Products Division 2007-2008; Division Vice President, Industrial Products/Paper Europe 2002-2007. Joined Sonoco in 1985.
Kevin P. Mahoney	54	Vice President, Corporate Planning since 2000. Joined Sonoco in 1987.
Marty F. Pignone	53	Vice President, Global Manufacturing, Industrial since 2008. Previously Vice President, Paper N.A. 2004-2008. Joined Sonoco in 1997.
Robert L. Puechl	54	Vice President, Global Plastics since February 2010. Previously Division Vice President and General Manager, Global Plastics 2008-2010; Division Vice President and General Manager, Molded Plastics and Caulk 2002-2008. Joined Sonoco in 1987.
Barry L. Saunders	50	Vice President and Corporate Controller and Chief Accounting Officer since 2008. Previously Staff Vice President and Corporate Controller and Chief Accounting Officer 2002-2008. Joined Sonoco in 1989.
Roger P. Schrum	54	Vice President, Investor Relations and Corporate Affairs since February 2009. Previously Staff Vice President, Investor Relations and Corporate Affairs 2005-2009. Joined Sonoco in 2005.
Rob C. Tiede	51	Vice President, Global Flexibles and Packaging Services since February 2009. Previously Division Vice President and General Manager, Flexible Packaging 2007-2009; President, Sonoco CorrFlex 2004-2007. Joined Sonoco in 2004.

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ITEM 1A. RISK FACTORS

RISK FACTORS RELATING TO SONOCO S BUSINESS

The Company is subject to environmental regulations and liabilities that could weaken operating results.

Federal, state, provincial, foreign and local environmental requirements, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), and particularly those relating to air and water quality, are significant factors in the Company s business and generally increase its costs of operations. The Company may be found to have environmental liability for the costs of remediating soil or water that is, or was, contaminated by the Company or a third party at various sites that are now, or were previously, owned, used or operated by the Company. Legal proceedings may result in the imposition of fines or penalties, as well as mandated remediation programs that require substantial, and in some instances, unplanned capital expenditures.

The Company has incurred in the past, and may incur in the future, fines, penalties and legal costs relating to environmental matters, and costs relating to the damage of natural resources, lost property values and toxic tort claims. The Company has made expenditures to comply with environmental regulations and expects to make additional expenditures in the future. As of December 31, 2009, $63.8 million was reserved for environmental liabilities. Such reserves are established when it is considered probable that the Company has some liability. In part because nearly all of the Company s potential environmental liabilities are joint and severally shared with others, the Company s maximum potential liability cannot be reasonably estimated. However, the Company s actual liability in such cases may be substantially higher than the reserved amount. Additional charges could be incurred due to changes in law, or the discovery of new information, and those charges could have a material adverse effect on operating results.

Changes to laws and regulations dealing with environmental issues, including climate change, are made or proposed with some frequency and some of the proposals, if adopted, might, directly or indirectly, result in a material reduction in the operating results of one or more of the Company s operating units.

General economic conditions in the United States may change, having a negative impact on the Company s earnings.

Domestic sales accounted for approximately 64% of the Company s consolidated revenues in 2009. Even with the Company s diversification across various markets and customers, due to the nature of the Company s products and services, general economic downturns can have an adverse impact on the Company s reported results.

Conditions in foreign countries where the Company operates may reduce earnings.

The Company has operations throughout North and South America, Europe, Australia and Asia, with facilities in 35 countries. In 2009, approximately 36% of consolidated sales came from operations and sales outside of the United States. Accordingly, economic conditions, political situations, and changing laws and regulations in those countries may adversely affect revenues and income.

Raw materials price increases may reduce net income.

Most of the raw materials the Company uses are purchased from third parties. Principal examples are recovered paper, steel, aluminum and resin. Prices for these raw materials are subject to substantial fluctuations that are beyond the Company s control and can adversely affect profitability. Many of the Company s long-term contracts with customers permit limited price adjustments to reflect increased raw material costs. Although both contractual and non-contractual prices may be increased in an effort to offset increases in raw materials costs, such adjustments may not occur quickly enough, or be sufficient to prevent a materially adverse effect on net income and cash flow.

The Company may encounter difficulties integrating acquisitions, restructuring operations or closing or disposing of facilities.

The Company has made numerous acquisitions in recent years, and may actively seek new acquisitions that management believes will provide meaningful opportunities in the markets it serves. Acquired businesses may not achieve the expected levels of revenue, profit or productivity, or otherwise perform as expected.

Acquisitions also involve special risks, including, without limitation, the potential assumption of unanticipated liabilities and contingencies, and difficulties in integrating acquired businesses. While management believes that acquisitions will improve the Company s competitiveness and profitability, no assurance can be given that acquisitions will be successful or accretive to earnings. If actual performance in an acquisition falls significantly short of the projected results, or the assessment of the relevant facts and circumstances changes, it is possible that a noncash impairment charge of any related goodwill would be required.

The Company has closed higher-cost facilities, sold non-core assets and otherwise restructured operations in an effort to improve cost competitiveness and profitability. Some of these activities are ongoing, and there is no guarantee that any such activities will achieve the Company s goals and not divert the attention of management or disrupt the ordinary operations of the Company. Moreover, production capacity, or the actual amount of products produced, may be reduced as a result of these activities.

Energy price increases may reduce net income.

Some of the Company s manufacturing operations require the use of substantial amounts of electricity and natural gas, which may be subject to significant price increases as the result of changes in overall supply and demand. Energy usage is forecasted and monitored, and the Company may, from time to time, use commodity futures or swaps in an attempt to reduce the impact of energy price increases. The Company cannot guarantee success in these efforts, and could suffer adverse effects to net income and cash flow should the Company be unable to pass higher energy costs through to its customers.

Changes in pension plan assets or liabilities may reduce net income and shareholders equity.

The Company has an aggregate projected benefit obligation for its defined benefit plans in excess of $1.3 billion. The calculation of this obligation is sensitive to the underlying discount rate assumption. Reductions in the long-term yield of high-quality debt instruments

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would result in a higher projected benefit obligation and higher net periodic benefit cost. A higher projected benefit obligation may result in a change in funded status that significantly reduces shareholders equity. The Company has total assets of approximately $1.0 billion funding a portion of the projected benefit obligation. Decreases in fair value of these assets may result in higher net periodic benefit costs and changes in the funded status that significantly reduce shareholders equity.

The Company may not be able to develop new products acceptable to the market.

For many of the Company s businesses, organic growth depends meaningfully on new product development. If new products acceptable to the Company s customers are not developed in a timely fashion, growth potential may be hindered.

The Company may not be able to locate suitable acquisition candidates.

If significant acquisition candidates that meet the Company s specific criteria are not located, the Company s potential for growth may be restricted.

The Company, or its customers, may not be able to obtain necessary credit or, if so, on reasonable terms.

The Company operates a $500 million commercial paper program supported by a five-year bank credit facility of an equal amount committed by a syndicate of lenders until May 2011. In the event that disruptions in global credit markets were to become so severe that the Company was unable to issue commercial paper, it has the contractual right to draw funds directly on the underlying bank credit facility. The Company believes that the lenders continue to have the ability to meet their obligations under the facility. However, if these obligations are not met, the Company may be forced to seek more costly or cumbersome forms of credit. Should such credit be unavailable for an extended time, it would significantly affect the Company s ability to operate its business and execute its plans. In addition, the Company s customers may experience liquidity problems as a result of the current economic environment that could negatively affect the Company s ability to collect receivables and maintain business relationships.

Foreign exchange rate fluctuations may reduce the Company s earnings.

As a result of operating globally, the Company is exposed to changes in foreign exchange rates. Generally, each of the Company s foreign operations both produces and sells in its respective local currency, limiting the Company s exposure to foreign currency transactions. The Company monitors its exposures and, from time to time, may use forward currency contracts to hedge certain forecasted currency transactions or foreign currency denominated assets and liabilities. In addition to potential transaction losses, the Company s reported results of operations and financial position could be negatively affected by exchange rates when the activities and balances of its foreign operations are translated into U.S. dollars for financial reporting purposes.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved written comments from the SEC staff regarding the Company s periodic or current 1934 Act reports.

ITEM 2. PROPERTIES

The Company s corporate offices are owned and operated in Hartsville, South Carolina. There are 94 owned and 72 leased facilities used by operations in the Tubes and Cores/Paper segment, 27 owned and 36 leased facilities used by operations in the Consumer Packaging segment, three owned and 14 leased facilities used by operations in the Packaging Services segment, and 18 owned and 33 leased facilities used by all other operations. Europe, the most significant foreign geographic region in which the Company operates, has 48 manufacturing locations.

ITEM 3. LEGAL PROCEEDINGS

The Company has been named as a potentially responsible party (PRP) at several environmentally contaminated sites not owned by the Company. All of the sites are also the responsibility of other parties. The Company s liability, if any, is shared with such other parties, but the Company s share has not been finally determined in most cases. In some cases, the Company has cost-sharing agreements with other PRPs with respect to a particular site. Such agreements relate to the sharing of legal defense costs or cleanup costs, or both. The Company has assumed, for purposes of estimating amounts to be accrued, that the other parties to such cost-sharing agreements will perform as agreed. It appears that final resolution of some of the sites is years away, and actual costs to be incurred for these environmental matters in future periods is likely to vary from current estimates because of the inherent uncertainties in evaluating environmental exposures. Accordingly, the ultimate cost to the Company with respect to such sites cannot be determined. As of December 31, 2009 and 2008, the Company had accrued $63.8 million and $70.5 million, respectively, related to environmental contingencies. The Company periodically reevaluates the assumptions used in determining the appropriate reserves for environmental matters as additional information becomes available and, when warranted, makes appropriate adjustments.

Fox River

The Company believes the environmental issues regarding the Fox River, which are discussed below in some detail, currently represent the Company s greatest loss exposure for alleged environmental liability. The Company also believes that all of its exposure to such liability for the Fox River is contained within its wholly owned subsidiary, U.S. Paper Mills Corp. (U.S. Mills). Accordingly, regardless of the amount of liability that U.S. Mills may ultimately bear, the Company believes its maximum additional pre-tax loss for Fox River issues will essentially be limited to its investment in U.S. Mills, the book value of which was approximately $82 million at December 31, 2009.

The extent of U.S. Mills potential liability remains subject to many uncertainties. The Company periodically reevaluates U.S. Mills potential liability and the appropriate reserves based on information available to it. U.S. Mills eventual liability, which may be paid out over several years, will depend on a number of factors. In general, the most significant factors include: (1) the total remediation costs for the sites for which U.S. Mills is found to have liability and the share of such costs U.S. Mills is required to bear; (2) the total natural resource damages for such sites and the share of such costs U.S. Mills is required to bear, and (3) U.S. Mills costs to defend itself in this matter.

U.S. Mills was officially notified by governmental entities in 2003 that it, together with a number of other companies, had been identified as a PRP for environmental claims under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) and other statutes, arising out of the presence of polychlorinated biphenyls (PCBs) in sediments in the lower Fox River and in the bay of Green Bay in Wisconsin. U.S. Mills was named as a PRP because scrap paper purchased by U.S. Mills as a raw material for its paper making processes more than 30 years ago allegedly included carbonless copy paper that contained PCBs, some of which were included in wastewater from U.S. Mills manufacturing processes that was discharged into the Fox River. The Company acquired the stock of U.S. Mills in 2001, and the alleged contamination predates the acquisition. Although Sonoco was also notified that it was a PRP, its only involvement is as a subsequent shareholder of U.S. Mills. As such, the Company has responded that it has no separate responsibility apart from U.S. Mills.

The governmental entities making such claims against U.S. Mills and the other PRPs have been coordinating their actions, including the assertion of claims against the PRPs. Additionally, certain claimants have notified U.S. Mills and the other PRPs of their intent to commence a natural resource damage (NRD) lawsuit, but no such actions have been instituted.

A review of the circumstances leading to U.S. Mills being named a PRP and the current status of the remediation effort is set forth below.

In July 2003, the U.S. Environmental Protection Agency (EPA) and Wisconsin Department of Natural Resources (WDNR) issued their final cleanup plan (known as a Record of Decision, or ROD) for a portion of the Fox River. The ROD addressed the lower part of the Fox River and portions of Green Bay, where the EPA and WDNR (the Governments) estimate the bulk of the sediments that need to be remediated are located. In two portions of the lower part of the Fox River covered by the ROD Operable Units (OUs) 3 and 4 the Governments selected large-scale dredging as the cleanup approach. OU 3 is the section of the Fox River running downstream from Little Rapids to the De Pere dam, and OU 4 runs from the De Pere dam downstream to the mouth of the Fox River at Green Bay. U.S. Mills De Pere plant is just below the De Pere dam and, prior to 1972, discharged wastewater into the river downstream of the dam in OU 4. In the ROD, the Governments estimated that approximately 6.5 million cubic yards of sediment would be removed from OUs 3 and 4 at an estimated cost of approximately $284 million ($26.5 million for OU 3 and $257.5 million for OU 4). The Governments also identified capping the riverbed with appropriate materials as a contingent remedy to be evaluated during the remedial design process. For Green Bay (OU 5), the Governments selected monitored natural attenuation as the cleanup approach at an estimated cost of approximately $40 million. The Governments also indicated that some limited dredging near the mouth of the river might be required, which would ultimately be determined during the design stage of the project. Earlier, in January 2003, the Governments had issued their ROD for the upper portions of the Fox River OUs 1 and 2. Combining the then current cost estimates from both RODs, it appeared that the Governments expected the selected remedies for all five OUs to cost approximately $400 million, exclusive of contingencies. In March 2004, NCR Corporation (NCR) and Georgia-Pacific Corporation (G-P) entered into an Administrative Order on Consent (AOC) with the Governments to perform engineering design work for the cleanup of OUs 2 5.

In the course of the ongoing design work, additional sampling and data analysis identified elevated levels of PCBs in certain areas of OU 4 near the U.S. Mills De Pere plant (the OU 4 hotspot). In November 2005, the Governments notified U.S. Mills and NCR that they would be required to design and undertake a removal action that would involve dredging, dewatering and disposing of the PCB-contaminated sediments from the OU 4 hotspot. In furtherance of this notification, on April 12, 2006, the United States and the State of Wisconsin sued NCR and U.S. Mills in the U. S. District Court for the Eastern District of Wisconsin in Milwaukee (Civil Action No. 06-C-0484). NCR and U.S. Mills agreed to a Consent Decree with the United States and the State of Wisconsin pursuant to which the site is to be cleaned up on an expedited basis and NCR and U.S. Mills started removing contaminated sediment in May 2007. Although the defendants specifically did not admit liability for the allegations of the complaint, they are bound by the terms of the Consent Decree.

NCR and U.S. Mills reached agreement between themselves that each would fund 50% of the costs of remediation of the OU 4 hotspot, which from 2006, when project implementation began, through the end of 2009 has totalled approximately $29 million. Estimated remaining costs for the project as a whole are between $3.7 and $9.7 million. U.S. Mills environmental reserve at December 31, 2009 includes $3.2 million for its share of the estimated remaining costs under the funding agreement for remediation of the OU 4 hotspot. 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 remediation costs of the Site. Accordingly, the Company s ultimate share of the liability for remediation of the Site could be greater or less than 50% of the total cost.

At the time of the Company s acquisition of U.S. Mills in 2001, U.S. Mills and the Company estimated U.S. Mills liability for the Fox River cleanup at a nominal amount based on government reports and conversations with the Governments about the anticipated limited extent of U.S. Mills responsibility, the belief, based on U.S. Mills prior assertions, that no significant amount of PCB-contaminated raw materials had been used at the U.S. Mills plants, and the belief that any PCB contamination in the Fox River, other than a de minimis amount, was not caused by U.S. Mills. It appeared at that time that U.S. Mills and the Governments would be able to resolve the matter and dismiss U.S. Mills as a PRP for a nominal payment. Accordingly, no significant reserve was established at the time. However, the Governments subsequently declined to enter into such a settlement. Nonetheless, U.S. Mills continued to believe that its liability exposure was very small based on its continuing beliefs that no significant amount of

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PCB-contaminated raw materials had been used at the U.S. Mills plants and that any significant amount of PCB contamination in the section of the Fox River located adjacent to its plant was not caused by U.S. Mills.

In May/June 2005, U.S. Mills first learned of elevated levels of PCBs (the OU 4 hotspot) in the Fox River adjacent to its De Pere plant. U.S. Mills, while still not believing its De Pere plant was the source of this contamination, entered into the consent decree to remediate the OU 4 hotspot as discussed above.

In June 2006, U.S. Mills first received the results of tests it initiated on the U.S. Mills property that suggest that the De Pere plant may have processed as part of its furnish more than the de minimis amounts of PCB-contaminated paper reflected in the records available to the Company. This information seemed to contradict the Company s previous understanding of the history of the De Pere plant. Based on these most recent findings, it is possible that U.S. Mills might be responsible for a larger portion of the remediation than previously anticipated. The total estimated cost set forth in the ROD for remediation of OU 4 was approximately $257.5 million and the estimated cost of monitoring OU 5 was approximately $40 million (a 2007 amendment to the ROD estimated the cost of OUs 2 5 at $390 million). There are two alleged PRPs located in OU 4 (of which the smaller is the plant owned by U.S. Mills). It is possible that U.S. Mills and the owners of the other plant, together with NCR, the original generator of the carbonless copy paper, could be required to bear a majority of the remediation costs of OU 4, and share with other PRPs the cost of monitoring OU 5. U.S. Mills has discussed possible remediation scenarios with other PRPs who have indicated that they expect U.S. Mills to bear an unspecified but meaningful share of the costs of OU 4 and OU 5.

In February 2007, the EPA and WDNR issued a general notice of potential liability under CERCLA and a request to participate in remedial action implementation negotiations relating to OUs 2 5 to eight PRPs, including U.S. Mills. The notice requested that the PRPs indicate their willingness to participate in negotiations concerning performance of the remaining elements of the remedial action for OUs 2 5 and the resolution of the government entities claims for unreimbursed costs and natural resource damages. On April 9, 2007, U.S. Mills, in conjunction with other PRPs, presented to the EPA and the WDNR 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. (API), as plaintiffs, commenced suit in the United States District Court for the Eastern District of Wisconsin (No. 08-CV-0016-WCG) against U.S. Mills, as one of a number of defendants, seeking a declaratory judgment allocating among all the parties the costs and damages associated with the pollution and 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 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. On December 16, 2009, the court issued an order which concluded that, under the equities of the case, NCR and API were not entitled to any contribution from U.S. Mills and other defendants, thereby granting the defendants motions for summary judgment and denying the plaintiffs motions for summary judgment. Although an order has been issued by the court, no appealable final judgment has been entered yet; nevertheless, NCR has reported that it intends to appeal the ruling, presumably after entry of the final judgment. U.S. Mills plans to defend the suit vigorously.

On November 13, 2007, the EPA issued a unilateral Administrative Order for Remedial Action pursuant to Section 106 of CERCLA. The order requires U.S. Mills and the seven other respondents jointly to take various actions to cleanup OUs 2 5. The order 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 was initially required to be completed by December 31, 2008. The second phase consists primarily of dredging and disposing of contaminated sediments and the capping of dredged and less contaminated areas of the river bottom. The second phase is expected to continue for several years. The order also provides for a $32.5 thousand 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 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.

As of December 31, 2009, U.S. Mills environmental reserve for potential liabilities associated with the remediation of OUs 2 5 (not including amounts accrued for remediation of the OU 4 hotspot) totaled $57.2 million. That amount represents the minimum of the range of probable loss that can be reasonably estimated based on information available through the date of this report. 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 been previously 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 exposure to its consolidated financial position is limited to the equity position of U.S. Mills, which was approximately $82 million at December 31, 2009.

The actual costs associated with cleanup of the Fox River site are dependent upon many factors and it is reasonably possible that total remediation costs could be higher than the current estimates of project costs, which range from $390 million to more than $600 million for OUs 2 5. Some, or all, of any costs incurred by U.S. Mills may be subject to recoupment from other parties, but no amounts have been recognized in the financial statements of the Company for any such

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potential recoveries. Given the ongoing remedial design work being conducted, and the initial stages of remediation, it is possible there could be some additional changes to some elements of the reserve within the next year or thereafter, although that is difficult to predict.

Similarly, U.S. Mills does not have a basis for estimating the possible cost of any natural resource damage claims against it. Accordingly, reserves have not been provided for this potential liability. However, for the entire river remediation project, the lowest estimate in the Governments 2000 report on natural resource damages was $176 million.

In addition to its potential liability for OUs 4 and 5, U.S. Mills may have a contingent liability to Menasha Corporation to indemnify it for any amount for which it may be held liable in excess of insurance coverage for any environmental liabilities of a plant on OU 1 that U.S. Mills purchased from Menasha. Due to the uncertainty of Menasha s liability and the extent of the insurance coverage as well as any defenses that may be asserted to any such claim, U.S. Mills has not established a reserve for this contingency.

Other Legal Matters

On July 7, 2008, the Company was served with a complaint filed in the United States District Court for South Carolina by the City of Ann Arbor Employees Retirement System, individually and on behalf of others similarly situated (the Ann Arbor Suit). 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, as subsequently amended, alleges that the Company s earnings forecasts and SEC filings during the class period were materially false and misleading because the Company failed to disclose alleged price concessions that it gave one or more of its customers. 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 defend itself vigorously against the suit.

Additional information regarding legal proceedings is provided in Note 14 to the Consolidated Financial Statements of this Annual Report on Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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n PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s common stock is traded on the New York Stock Exchange under the stock symbol SON. As of December 31, 2009, there were approximately 39,000 shareholder accounts. Information required by Item 201(d) of Regulation S-K can be found in Part III, Item 12 of this Annual Report on Form 10-K. The following table indicates the high and low sales prices of the Company s common stock for each full quarterly period within the last two years as reported on the New York Stock Exchange, as well as cash dividends declared per common share:

	High	*Low*	*Cash Dividends*
2009			
First Quarter	$ 25.41	$ 16.70	$.27
Second Quarter	$ 26.18	$ 20.27	$.27
Third Quarter	$ 28.95	$ 22.58	$.27
Fourth Quarter	$ 30.61	$ 26.17	$.27
2008			
First Quarter	$ 33.48	$ 25.97	$.26
Second Quarter	$ 34.85	$ 28.20	$.27
Third Quarter	$ 35.81	$ 29.58	$.27
Fourth Quarter	$ 31.04	$ 19.84	$.27

The Company made the following purchases of its securities during the fourth quarter of 2009:

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]
9/28/09 11/01/09	1,311	$ 27.12		5,000,000
11/02/09 11/29/09				5,000,000
11/30/09 12/31/09				5,000,000
Total	1,311	$ 27.12		5,000,000

1 All of the share purchases in the fourth 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 December 31, 2009, a total of 5,000,000 shares remain available for repurchase.

The Company did not make any unregistered sales of its securities during 2009.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth the Company s selected consolidated financial information for the past five years. The information presented below should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Annual Report on Form 10-K and the Company s historical Consolidated Financial Statements and the Notes thereto included in Item 8 of this Annual Report on Form 10-K. The selected statement of income data and balance sheet data are derived from the Company s Consolidated Financial Statements.

	Years ended December 31				
(Dollars and shares in thousands except per share data)	*2009*	*2008*	*2007*	*2006*	*2005*
Operating Results					
Net sales	**$ 3,597,331**	$ 4,122,385	$ 4,039,992	$ 3,656,839	$ 3,528,574
Cost of sales and operating expenses	**3,317,744**	3,772,751	3,695,917	3,310,751	3,232,590
Restructuring/Asset impairment charges	**26,801**	100,061	36,191	25,970	21,237
Interest expense	**40,992**	53,401	61,440	51,952	51,559
Interest income	**(2,427)**	(6,204)	(9,182)	(6,642)	(7,938)
Income before income taxes	**214,221**	202,376	255,626	274,808	231,126
Provision for income taxes	**66,818**	54,797	55,186	93,329	84,174
Equity in earnings of affiliates, net of tax	**(7,742)**	(9,679)	(11,586)	(12,185)	(11,402)
Net income	**155,145**	157,258	212,026	193,664	158,354
Net income/(loss) attributable to noncontrolling interests	**3,663**	(7,350)	(2,130)	(1,417)	(3,523)
Net income attributable to Sonoco	**$ 151,482**	$ 164,608	$ 214,156	$ 195,081	$ 161,877
Per common share					
Net income attributable to Sonoco:					
Basic	**$ 1.50**	$ 1.64	$ 2.13	$ 1.95	$ 1.63
Diluted	**1.50**	1.63	2.10	1.92	1.61
Cash dividends	**1.08**	1.07	1.02	0.95	0.91
Weighted average common shares outstanding:					
Basic	**100,780**	100,321	100,632	100,073	99,336
Diluted	**101,029**	100,986	101,875	101,534	100,418
Actual common shares outstanding at December 31	**100,149**	99,732	99,431	100,550	99,988
Financial Position					
Net working capital	**$ 190,934**	$ 231,794	$ 269,598	$ 282,974	$ 265,014
Property, plant and equipment, net	**926,829**	973,442	1,105,342	1,019,594	943,951
Total assets	**3,062,580**	3,086,466	3,340,243	2,916,678	2,981,740
Long-term debt	**462,743**	656,847	804,339	712,089	657,075
Total debt	**580,796**	689,825	849,538	763,992	781,605
Total Equity	**1,380,630**	1,174,518	1,463,486	1,240,112	1,345,940
Current ratio	**1.2**	1.3	1.4	1.4	1.4
Total debt to total capital[1]	**29.6%**	37.0%	36.7%	38.1%	36.7%

[1] Calculated as Total debt divided by the sum of Total debt and Total Equity.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL OVERVIEW

Sonoco is a leading manufacturer of consumer and industrial packaging products and provider of packaging services with 312 locations in 35 countries. The Company s operations are organized and reported in three segments, Consumer Packaging, Tubes and Cores/Paper and Packaging Services, while a number of smaller businesses are discussed as All Other Sonoco. Generally, the Company serves two broad end-use markets: consumer and industrial. In 2009, consumer and industrial sales were split approximately 58% and 42%, respectively. Geographically, approximately 64% of sales are generated in the United States, 17% in Europe, 9% in Canada and 10% in other regions.

The Company is a market-share leader in many of its product lines, particularly in tubes, cores and composite containers. Competition in most of the Company s businesses is intense. Demand for the Company s products and services is primarily driven by the overall level of consumer consumption of non-durable goods, however, certain product and service groups are tied more directly to durable goods, such as appliances, and construction. The businesses that supply and/or service consumer product companies tend to be, on a relative basis, more recession resistant than those that service industrial markets.

During the recent global economic recession, conditions in the Company s served consumer markets have been relatively stable, while greater deterioration occurred in the Company s North American and European textile and paper markets, which negatively impacted the Company s industrial businesses. Many of the Company s businesses operate in industries with excess marginal capacity that works to restrain the pricing ability of all market participants. This condition can be magnified by a slowdown in the overall economy.

Strategy and Opportunities

Financially, the Company s objective is to deliver average annual double-digit total returns to shareholders over time. To meet that target, the Company focuses on three major areas: driving profitable sales growth, improving margins, and leveraging the Company s strong cash flow and financial position. Operationally, the Company s goal is to be the low-cost global leader in customer-preferred packaging solutions within targeted customer market segments.

In December 2007, the Company shared a five-year plan to grow revenue, improve margins and more effectively utilize assets. More specifically, management had an aggressive goal to grow total revenues to $6 billion by 2012 while improving EBIT (earnings before interest and taxes) margins to 11%. The five-year plan continued the Company s focus on growing its consumer-related business faster than the industrial-related business, with the goal of transitioning the Company s overall mix of business to approximately 60% consumer and 40% industrial. To a certain degree, the recent global recession has worked to accelerate that shift. During 2009, management revisited the plan and validated the goals but acknowledged that, due to the economic crisis, the target date for achievement should be moved out by approximately two years. The Company s expected growth drivers continue to be increasing organic sales, geographic expansion and strategic acquisitions. While in the next few years revenue growth is expected to be equally split between organic growth and acquisitions, reaching management s aggressive growth goal will likely require a significantly higher level of acquisition activity. Some of the organic growth is expected to occur in the form of new products. The five-year plan targets average annual sales from new products (those on the market for two years or less) at $100 million to $150 million. Sales from new products were $179 million in 2009, $136 million in 2008, and $100 million in 2007.

The Company s plan to improve margins focuses on leveraging fixed costs, improving productivity, maintaining a positive price/cost relationship (raising selling price at least enough to recover inflation of material, energy and freight costs), and improving underperforming operations.

Management believes the Company s financial position and strong cash flow provide a competitive advantage in the current environment as the ability of some competitors to meet customer needs reliably is threatened by liquidity constraints and profitability concerns.

Use of Non-GAAP Financial Measures

To assess and communicate the financial performance of the Company, Sonoco management uses, both internally and externally, certain financial performance measures that are not in conformance with generally accepted accounting principles (non-GAAP financial measures). These non-GAAP financial measures reflect the Company s GAAP operating results adjusted to remove restructuring charges, asset impairment charges, environmental remediation charges and other items, if any, the exclusion of which management believes improves the period-to-period comparability and analysis of the underlying financial performance of the business. The adjusted non-GAAP results are identified using the term base, for example, base earnings.

The Company s base financial performance measures are not in accordance with, nor an alternative for, measures conforming to generally accepted accounting principles and may be different from non-GAAP measures used by other companies. The Company uses the non-GAAP base performance measures presented herein for internal planning and forecasting purposes, to evaluate its ongoing operations, and to evaluate the ultimate performance of each business unit against plan/forecast.

Reconciliations of GAAP to base results are presented on pages 18 and 19 in conjunction with management s discussion and analysis of the Company s results of operations. Whenever reviewing a non-GAAP financial measure, readers are encouraged to review the related reconciliation fully to understand how it differs from the related GAAP measure.

2009 HIGHLIGHTS

Although much of 2009 saw a continuation of the deepest global recession in decades, by the end of the year the Company was seeing improvement in many of its businesses and stabilization in others. While weak market demand led to lower sales and earnings for the year, cash flow from operations was higher than in 2008 despite a $100 million voluntary pension plan contribution. As might be expected, the consumer-focused businesses held up much better than the industrial-focused businesses and, in fact, the Consumer Packaging segment posted record operating profits in 2009.

Responding to what management perceives has been a decline in long-term industrial sector market demand, the Company realigned it business, streamlined its management organization to be more efficient and reduced fixed costs by rationalizing its manufacturing footprint. Since January 1, 2008, on the industrial side the Company has closed 20 locations and reduced the workforce by 15%. As a result of these and other actions, the Company believes it is well positioned to benefit from a continued rebound in economic activity.

For 2009, net income attributable to Sonoco was $151.5 million, compared to $164.6 for 2008. Earnings in 2009 were negatively impacted by after-tax restructuring charges of $23.0 million, a $33 million after-tax increase in pension costs, and a $5.3 million charge related to a retrospective tax-law change in Mexico. 2008 earnings were negatively impacted by a $31.0 million after-tax, non-cash impairment charge and $30.8 million in after-tax asset impairment and restructuring charges.

Base net income attributable to Sonoco (also referred to as base earnings) was $179.8 million compared to $226.4 million for 2008, a decline of 21%. This decline was primarily due to lower companywide volumes and the $33.0 million after tax increase in pension costs.

Volume declines were the primary cause for a 13% reduction in total sales from 2008 levels. Although declines were felt throughout the Company, they were more severe in the industrial focused businesses. Reduced selling prices, primarily in the Tubes/Cores and Paper segment associated with lower material costs, and a stronger dollar also were significant contributors to the decline.

Overall gross profit margin increased to 18.5% compared to 17.6% in 2008. This improvement was largely attributable to lower costs for certain key inputs, selected sales price increases, and aggressive cost control and business realignment efforts.

The consolidated effective tax rate was 31.2% in 2009, compared to 27.1% in 2008. This increase was due mostly to a 2009 change in Mexican tax law. This change had a retrospective effect for years back to 1999 and eliminated $5.3 million in benefits from filing consolidated returns in those periods. The effective tax rate on base earnings was 29.0% in 2009, relatively flat with 29.4% in 2008.

Due to strong 2009 investment returns on plan assets and a $100 million voluntary pension plan contribution, the aggregate unfunded position of the Company s various benefit plans decreased from $460 million at December 31, 2008 to $330 million at the end of 2009.

The Company generated $391 million in cash from operations during 2009, exceeding the $379 million generated in 2008. This improvement came despite the voluntary pension contribution, which for the year had a net after-tax cash impact of approximately $63 million.

2010 OUTLOOK

The Company believes that it will be able to hold or, in some cases, expand market share across its businesses in 2010. Volumes will continue to be largely dependent on the direction of the economy, which continues to be very uncertain, but are expected to show year-over-year improvement in the industrial businesses.

The Company expects sales demand will remain near the levels experienced during the second half of 2009, which would lead to favorable year-over-year comparisons for the first six months of 2010, more so in businesses serving industrial markets. The Company expects productivity improvements, recent restructuring actions and other cost control measures will aid 2010 results and position the Company well for a continued economic recovery. Potentially offsetting these favorable factors are certain price resets which are expected to put some pressure on the overall price/cost relationship in 2010.

The strong 2009 investment performance and the voluntary $100 million pension contribution are projected to result in a 2010 decrease of $26 million in annual pension and postretirement benefit plan expense. Cash contributions to these plans in 2010 are expected to total approximately $22 million.

The consolidated effective tax rate is expected to be approximately 31% in 2010.

ACQUISITIONS AND JOINT VENTURES

The Company completed one acquisition during 2009 at a recorded cost of $7.2 million, of which $5.0 was paid in cash with the remainder representing contingent consideration expected to be paid in future periods. This acquisition of the plastic spools and reels assets and business of EconoReel Corporation of Logan, Utah, and its controlled subsidiary Southern Reel, is included in All Other Sonoco. The acquisition of this business is expected to generate annual sales of approximately $7 million. Also in 2009, the Company paid an additional $0.5 million in contingent consideration for its 2008 acquisition of Amtex Packaging, Inc.

The Company completed two acquisitions during 2008 at an aggregate cost of $5.5 million in cash. These acquisitions, a packaging fulfillment company included in the Packaging Services segment and a construction tube business included in the Tubes and Cores/Paper segment, had estimated combined annual sales of approximately $6 million.

The Company completed four acquisitions during 2007, and purchased the remaining 51.1% interest in a small joint venture in Europe, at an aggregate cost of $236.3 million, all of which was paid in cash. Combined, these acquisitions had estimated annual sales of approximately $200 million. Significant acquisitions included Matrix Packaging, Inc., a leading manufacturer of custom-designed blow molded rigid plastic containers and injection molded products, and the fiber and plastic container business of Caraustar Industries, Inc. Both of these businesses are included in the Consumer Packaging segment.

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

See Note 2 to the Consolidated Financial statements for further information about acquisition activities.

RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

Due to its footprint (312 locations in 35 countries) and the cost-competitive nature of its businesses, the Company is constantly seeking the most cost-effective means and structure to serve its customers and to respond to fundamental changes in its markets. As such,

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restructuring costs have been and are expected to be a recurring component of the Company s operating costs. The amount of these costs can vary significantly from year to year depending upon the scope and location of the particular restructuring activities.

The following table recaps the impact of restructuring and asset impairment charges on the Company s net income for the periods presented (dollars in thousands):

	Year Ended December 31		
	2009	*2008*	*2007*
Exit costs:			
2009 Actions	**$ 21,380**	$	$
2008 Actions	**8,400**	22,215	
2007 Actions	**919**	11,532	2,693
Earlier Actions	**452**	3,089	16,813
Asset (Sales)/Impairments:			
Operating Assets, primarily restructuring	**(4,350)**	20,574	16,685
Financial Assets		42,651	
Total charges	**$ 26,801**	$ 100,061	$ 36,191
Income tax benefit	**(8,458)**	(34,158)	(10,835)
Equity method investments, net of tax	**908**		
Impact of Noncontrolling Interests, net of tax	**3,787**	(4,102)	(64)
Total impact of Restructuring/Asset impairment charges, net of tax	**$ 23,038**	$ 61,801	$ 25,292

The Company commenced the sale of its paper mill in China in 2008 and the book value of the assets were written off against the portion of the sales proceeds received in that year. Remaining proceeds of $11.2 million were received in 2009. These proceeds, partially offset by approximately $6.8 million of asset impairment charges associated with other plant closures, account for the net gain reflected in 2009. Due to uncertainty of collection, the Company recognized proceeds from the China sale on a cash basis and recorded gains only to the extent that cash collected exceeded the book value of the assets sold.

In 2008, the Company recorded a noncash financial asset impairment charge of $42.7 million ($31.0 million after tax) reflecting the full impairment of two financial instruments, a preferred equity interest and a subordinated note receivable, which had been obtained in the Company s 2003 sale of its High Density Film business.

The Company expects to recognize future additional costs totaling approximately $5.1 million in connection with previously announced restructuring actions. The Company believes that the majority of these charges will be incurred and paid by the end of 2010. As noted above, the Company continually evaluates its cost structure, including its manufacturing capacity, and additional restructuring actions may be undertaken. Restructuring and asset impairment charges are subject to significant fluctuations from period to period due to the varying levels of restructuring activity and the inherent imprecision in the estimates used to recognize the impairment of assets and the wide variety of costs and taxes associated with severance and termination benefits in the countries in which the Company operates.

See Note 3 to the Consolidated Financial statements for further information about restructuring activities and asset impairments charges.

ENVIRONMENTAL CHARGES

In two separate actions during 2008, U.S. Paper Mills Corp. (U.S. Mills), a wholly owned subsidiary of the Company, increased its reserve for Fox River related environmental liabilities by a total of $40.8 million. 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 offset the impact to earnings of the additional charges.

In 2007, U.S. Mills recorded charges totaling $25.2 million ($14.8 million after tax) in association with environmental remediation liabilities for various sites in the lower Fox River. The charges are included in Selling, general and administrative expenses in the Company s Consolidated Statements of Income.

As of December 31, 2009 and 2008, the Company (and its subsidiaries) had accrued $63.8 million and $70.5 million, respectively, related to environmental contingencies. Of these, a total of $60.4 million and $67.4 million relate to U.S. Mills at December 31, 2009 and 2008, respectively. The range of possible loss on U.S. Mills liability for Fox River is uncertain and, while the upper end of the range may exceed the net worth of U.S. Mills, the Company believes the maximum additional exposure to its consolidated financial position is limited to the equity position of U.S. Mills, which was approximately $82 million at December 31, 2009.

See Item 3. Legal Proceedings for a more detailed discussion of the Company s environmental matters.

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RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES

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

Reconciliation of GAAP to Non-GAAP Financial Measures

	For the year ended December 31, 2009			
Dollars and shares in thousands, except per share data	*GAAP*	*Restructuring/ Asset Impairment*	*Mexico Tax Adjustment*	*Base*
Income before interest and income taxes	$ 252,786	$ 26,801	$	$ 279,587
Interest expense, net	38,565			38,565
Income before income taxes and equity in earnings of affiliates	$ 214,221	$ 26,801	$	$ 241,022
Provision for income taxes	66,818	8,458	(5,287)	69,989
Income before equity in earnings of affiliates	$ 147,403	$ 18,343	$ 5,287	$ 171,033
Equity in earnings of affiliates, net of tax	7,742	908		8,650
Net income	$ 155,145	$ 19,251	$ 5,287	$ 179,683
Less: Net (income)/loss attributable to noncontrolling interests, net of tax	(3,663)	3,787		124
Net income attributable to Sonoco	$ 151,482	$ 23,038	$ 5,287	$ 179,807
Per common share	$ 1.50	$ 0.23	$ 0.05	$ 1.78

Reconciliation of GAAP to Non-GAAP Financial Measures

	For the year ended December 31, 2008			
Dollars and shares in thousands, except per share data	*GAAP*[1]	*Restructuring/ Asset Impairment*	*Financial Asset Impairment*	*Base*[1]
Income before interest and income taxes	$ 249,573	$ 57,410	$ 42,651	$ 349,634
Interest expense, net	47,197			47,197
Income before income taxes and equity in earnings of affiliates	$ 202,376	$ 57,410	$ 42,651	$ 302,437
Provision for income taxes	54,797	22,488	11,670	88,955
Income before equity in earnings of affiliates	$ 147,579	$ 34,922	$ 30,981	$ 213,482
Equity in earnings of affiliates, net of tax	9,679			9,679
Net income	$ 157,258	$ 34,922	$ 30,981	$ 223,161
Less: Net (income)/loss attributable to noncontrolling interests, net of tax	7,350	(4,102)		3,248
Net income attributable to Sonoco	$ 164,608	$ 30,820	$ 30,981	$ 226,409
Per common share	$ 1.63	$ 0.30	$ 0.31	$ 2.24

[1] The amount of additions to the environmental reserve in 2008 were offset by insurance settlements, thus no adjustments were made for such additions.

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Reconciliation of GAAP to Non-GAAP Financial Measures

	For the year ended December 31, 2007				
Dollars and shares in thousands, except per share data	*GAAP*	*Restructuring/ Asset Impairment*	*Environ-mental Reserve*	*Release of Tax Reserves*	*Base*
Income before interest and income taxes	$ 307,884	$ 36,191	$ 25,150	$	$ 369,225
Interest expense, net	52,258				52,258
Income before income taxes and equity in earnings of affiliates	$ 255,626	$ 36,191	$ 25,150	$	$ 316,967
Provision for income taxes	55,186	10,835	10,304	11,847	88,172
Income before equity in earnings of affiliates	$ 200,440	$ 25,356	$ 14,846	$ (11,847)	$ 228,795
Equity in earnings of affiliates, net of tax	11,586				11,586
Net income	$ 212,026	$ 25,356	$ 14,846	$ (11,847)	$ 240,381
Less: Net (income)/loss attributable to noncontrolling interests, net of tax	2,130	(64)			2,066
Net income attributable to Sonoco	$ 214,156	$ 25,292	$ 14,846	$ (11,847)	$ 242,447
Per common share	$ 2.10	$ 0.25	$ 0.15	$ (0.12)	$ 2.38

RESULTS OF OPERATIONS 2009 VERSUS 2008

Net income attributable to Sonoco in 2009 was $151.5 million, compared to $164.6 million for 2008. Earnings in 2009 were negatively impacted by after-tax restructuring charges of $23.0 million and a $5.3 million charge related to a retrospective tax-law change in Mexico. 2008 earnings were negatively impacted by a $31.0 million after-tax, non-cash impairment charge related to the Company s remaining financial interest in the 2003 sale of its high density film business and $30.8 million in after-tax restructuring-related costs and impairments.

Base earnings were $179.8 million for 2009 compared to $226.4 million for 2008, a decline of 21%. This decline was primarily due to lower companywide volumes and an increase in pension costs of $33.0 million, after tax. These items were partially offset by strong productivity improvements, reduced fixed costs, some of which were a result of restructuring actions, and a favorable price/cost relationship.

Sales dropped 13% from 2008 levels to $3.6 billion in 2009. Volume declines throughout the Company, but most notably in the industrial focused businesses, accounted for more than half of the year-over-year sales deterioration. Most significant during the first half of the year, the volume declines moderated during the third quarter, and volume turned positive year-over-year during the fourth quarter. The impact of selling prices in 2009 was a negative factor when compared to prior year levels. These declines in the Tubes and Cores/Paper segment, resulting from lower input costs, more than offset price increases in the Consumer Packaging segment where material and other costs were higher. In addition to volume and price declines, sales were lower as a result of the stronger dollar during the first three quarters of 2009. This exchange impact partially reversed in the fourth quarter as the dollar declined against other currencies, but the impact for the total year was still unfavorable.

Overall gross profit margin increased to 18.5% in 2009 compared to 17.6% in 2008. Margins benefitted from positive price/cost relationships, most notably in the Consumer Packaging segment, productivity improvements in most of the Company s businesses, and management s efforts on fixed cost control.

The consolidated effective tax rate was 31.2% in 2009, compared to 27.1% in 2008. This increase was due to a current year $5.3 million charge related to a change in Mexican tax law and a $4 million prior year benefit in Italy. The 2009 Mexico law change had a retrospective effect for years back to 1999 and eliminated the benefits of filing consolidated tax returns in those years. The prior year benefit in Italy related to an asset basis adjustment election made by the Company in 2008. The effective tax rate on base earnings was 29.0% in 2009, relatively flat with 29.4% in 2008.

Operating Revenue

Consolidated net sales for 2009 were $3.6 billion, a $525 million, or 12.7%, decrease from 2008.

The components of the sales change were:

($ in millions)	
Volume/Mix	$ (323)
Currency exchange rate/Other	(138)
Selling price	(61)
Acquisitions (net of dispositions)	(3)
Total sales decrease	$ (525)

Selling prices were generally lower throughout the Company, in response to lower input costs, with the exception of rigid paper containers and metal ends, where prices were increased to cover higher tinplate steel and other costs. Companywide volume, excluding service center revenue which was on a pass-through basis, decreased approximately 7% from 2008 levels. The overall volume decrease was driven by declines in nearly all business units. Total domestic sales were $2.3 billion, down 11% from 2008. International sales were $1.3 billion, down 16% from 2008 levels.

Costs and Expenses

Lower volumes and, to a lesser degree, input prices combined to reduce the Company s 2009 total cost of sales from prior year levels. The market price for old corrugated containers (OCC), the Company s most significant raw material in dollar terms, began the year at historically low levels and moved considerably higher over the course of the year; however, on average, OCC cost was lower than in 2008. Prices paid for resins and freight were also down year over year. Conversely, the Company s cost for tinplate steel started off at historically high levels, trended down over the course of the year, and ultimately averaged out higher than in 2008.

In 2009, aggregate pension and postretirement expenses increased $50.6 million to $81.4 million, versus $30.8 million in 2008. Approximately 75% of these expenses are reflected in cost of sales, with the balance in selling, general and administrative expenses. The Company expects pension and postretirement expenses to decrease by approximately $27 million in 2010 as a result of higher plan asset levels and reduced amortization of losses on plan assets. There was a positive return on the assets of U.S.-based defined benefit plans of 21% in 2009, compared with a negative return of 24.3% in 2008. Future years expense will depend largely on the performance of plan assets and long-term interest rates.

During the year, the Company engaged in a number of cost management efforts, including: realigning its business and streamlining the management organization to be more efficient; enhancing productivity and controlling variable costs; and reducing structural costs to a level management believes is aligned with new market realities, while maintaining the capacity necessary to grow with customers. The Company s efforts to reduce fixed costs, which included rationalizing its manufacturing footprint, reflect lower revised expectations of what normal post-recession market demand will look like. Plant rationalization and other cost-reduction efforts have reduced the workforce of the industrial businesses by approximately 15% since January 1, 2008, while also reducing positions in the consumer and corporate functions.

Selling, general and administrative expenses as a percentage of sales increased to 10.7% for the year from 9.1% in 2008. In total, these expenses were $12.1 million higher year over year. This increase is due to higher pension and incentive compensation costs, which were partially offset by fixed cost reduction efforts.

Research and development costs, all of which were charged to expense, totaled $12.4 million and $15.9 million in 2009 and 2008, respectively. Management expects research and development spending in 2010 to be consistent with these levels.

Net interest expense totaled $38.6 million for the year ended December 31, 2009, compared with $47.2 million in 2008. The decrease was due primarily to lower average debt levels and lower average interest rates.

REPORTABLE SEGMENTS

Consolidated operating profits, also referred to as Income before income taxes on the Consolidated Statements of Income, are comprised of the following:

($ in millions)	*2009*	*2008*	*% Change*
Consumer Packaging segment	**$ 169.9**	$ 131.0	29.8%
Tubes and Cores/Paper segment	**72.3**	145.8	(50.5)%
Packaging Services segment	**11.0**	28.5	(61.3)%
All Other Sonoco	**26.4**	44.4	(40.5)%
Restructuring/impairment and environmental charges	**(26.8)**	(100.1)	73.2%
Interest expense, net	**(38.6)**	(47.2)	18.3%
Consolidated operating profits	**$ 214.2**	$ 202.4	5.9%

Segment results viewed by Company management to evaluate segment performance do not include restructuring, impairment and environmental charges and net interest charges. Accordingly, the term segment operating profits is defined as the segment s portion of Income before income taxes excluding restructuring charges, asset impairment charges, environmental charges and net interest expense. General corporate expenses, with the exception of restructuring charges, asset impairment charges, environmental charges, interest and income taxes, have been allocated as operating costs to each of the Company s reportable segments and All Other Sonoco.

See Note 16 to the Company s Consolidated Financial Statements for more information on reportable segments.

Consumer Packaging

($ in millions)	*2009*	*2008*	*% Change*
Trade sales	**$ 1,550.6**	$ 1,586.5	(2.3)%
Segment operating profits	**169.9**	131.0	29.8%
Depreciation, depletion and amortization	**69.5**	73.7	(5.7)%
Capital spending	**35.2**	41.8	(15.8)%

Prior year results have been restated for a reclassification between segments of a small global brand artwork management business that was previously included in the Packaging Services segment. The impact of this reclassification on 2008 was to transfer $16.1 million of sales and $0.6 million of operating profits into the Consumer Packaging segment from the Packaging Services segment.

Sales decreased due to lower volume throughout the segment except for small gains in rigid plastic bottles. Overall segment volumes were down approximately 4%. In addition, although the dollar weakened during the fourth quarter, the total year impact of exchange rates was unfavorable by $34 million. Increased selling prices, resulting from higher material and other costs, partially offset the negative factors. Domestic sales were approximately $1,180 million, flat with 2008, while international sales were approximately $371 million, down 8.7%, or $35 million, from 2008. The decline in international sales is almost completely due to the impact of foreign exchange rates.

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Segment operating profits increased primarily due to the impact of a favorable price/cost relationship as selling prices were increased and, largely due to timing, more than offset a significant increase in the Company s cost of tinplate steel and other input costs. Productivity and purchasing initiatives were able to offset the impact of lower volume and higher pension costs.

Significant capital spending included projects to increase rigid plastic container production capacity in the United States as well as productivity projects throughout the segment.

Tubes and Cores/Paper

($ in millions)	*2009*	*2008*	*% Change*
Trade sales	$ 1,339.1	$ 1,674.6	(20.0)%
Segment operating profits	72.3	145.8	(50.5)%
Depreciation, depletion and amortization	85.5	87.6	(2.4)%
Capital spending	57.0	70.5	(19.2)%

Sales were down due to volume shortfalls, lower selling prices and unfavorable exchange rates. The only operations showing year-over-year volume improvements included European paper operations and Latin American tube and core operations. The most significant volume declines occurred in North American and European tube and core operations. Volume declined most notably during the first half of the year and began to stabilize in the third quarter. Fourth quarter volumes showed improvement over a very weak 2008 fourth quarter. Excluding the impact of the divestiture of the Canadian recycling paper operation and the shutdown of a paper mill in China in 2008, volume in the segment decreased by approximately 9%. Lower year-over-year selling prices, primarily due to lower average market costs for OCC, also contributed to the sales decline. Beginning in 2010, the Company will begin selling corrugating medium from a machine that had been producing exclusively for Georgia-Pacific under a cost plus fixed management fee arrangement. Annual sales are expected to be approximately $50 million with a small operating profit. Domestic sales decreased approximately $166 million, or 20.8%, to approximately $634 million. International sales decreased approximately $169 million, or 19.3% to approximately $705 million, with approximately $81 million of the decline a result of unfavorable foreign exchange rates.

The combination of lower volumes, an unfavorable shift in the mix of business, an unfavorable price/cost relationship and higher pension costs resulted in over a 50% decline in segment operating profits in 2009. Productivity initiatives and the impact of restructuring actions on fixed costs helped mitigate some of the negative factors.

Significant capital spending included the modification of several paper machines, primarily in the United States and Europe, and productivity projects throughout the segment.

Packaging Services

($ in millions)	*2009*	*2008*	*% Change*
Trade sales	$ 426.5	$ 501.4	(14.9)%
Segment operating profits	11.0	28.5	(61.3)%
Depreciation, depletion and amortization	10.9	11.0	(1.3)%
Capital spending	5.2	2.6	99.0%

Sales declined on volume shortfalls in North America and the unfavorable impact of exchange rates. The volume shortfalls were related to lower activity in the dedicated pack centers, and were partially offset by increased service center volume in Poland. As a result of bidding activity conducted in the fourth quarter by a major customer of the Packaging Services segment, the Company expects to lose approximately $40 million of that customer s business in 2010. Further, another of the segment s customers notified the Company in late 2009 of its intention to consolidate its business with another vendor beginning in 2011. Due to anticipated growth from new business, management does not expect the loss of business from these customers to have a material adverse effect on the segment s operating results over the long term. Domestic sales decreased to approximately $285 million, a 14.7% reduction, while international sales decreased 15.3% to approximately $141 million. Excluding an unfavorable $41 million impact of foreign currency translation, international sales increased as a result of the increased service center volume in Poland.

The decrease in segment operating profits is attributable to slightly lower volumes in point-of-purchase activities, an unfavorable shift in the mix of business and higher pension costs. Lower fixed costs, resulting from restructuring actions, mitigated a portion of the unfavorable factors. Although service center volume decreased, it had very little impact on profits as these sales were on a pass-through basis with no significant gross margin.

Capital spending included capacity expansion in Europe as well as numerous productivity and customer development projects in the United States and Europe.

All Other Sonoco

($ in millions)	*2009*	*2008*	*% Change*
Trade sales	$ 281.1	$ 359.9	(21.9)%
Operating profits	26.4	44.4	(40.5)%
Depreciation, depletion and amortization	7.7	10.7	(27.8)%
Capital spending	6.7	8.1	(17.2)%

Sales for All Other Sonoco decreased primarily due to lower volumes in molded plastics, protective packaging and wire and cable reels. In addition, selling prices of these same products were lower year over year in response to lower input costs, and the impact of exchange rates was unfavorable. Domestic sales were approximately $216 million, down 23.2% from 2008, and international sales were approximately $65 million, a decrease of 17.3%.

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Operating profits in All Other Sonoco decreased due primarily to volume declines and higher pension costs. The decrease was mitigated by improved manufacturing productivity, structural cost reductions and a favorable selling price/material cost variance.

Capital spending included investing in productivity and customer development projects in the United States and Europe for molded and extruded plastics, protective packaging and wire and cable reels.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Cash flow from operations totaled $391.0 million in 2009 and reflects a voluntary contribution of $100 million to the Company s U.S. qualified defined benefit pension plan. Cash flow from operations totaled $379.4 million in 2008. Benefits from changes in net working capital more than offset the $63 million after-tax cash impact of the Company s voluntary pension contribution.

Cash flows used by investing activities were $91.5 million in 2009, compared to $110.2 million in 2008. The decrease was due primarily to a $19.0 million reduction in year-over-year capital spending from $123.1 million in 2008 to $104.1 million in 2009. The reduction was largely attributable to the Company s effort to match capital spending with business conditions. Capital spending is expected to be between approximately $120 million and $130 million in 2010.

Net cash used by financing activities totaled $219.7 million in 2009, compared with $241.4 million in 2008. The Company utilized cash generated from operations to repay a net $116.2 million and $153.0 million of debt during 2009 and 2008, respectively, and to pay dividends of $107.9 million and $106.6 million in 2009 and 2008, respectively. The Company s $100 million, 6.75% debenture becomes due in November 2010. The Company expects to be able to satisfy this obligation utilizing cash generated from operations during 2010 or through refinancing with existing available credit.

Current assets increased by $66.6 million to $996.6 million at December 31, 2009. The increase was driven by higher year-over-year levels of cash resulting from strong operating cash flows and higher trade accounts receivable resulting from stronger fourth quarter 2009 sales compared with the fourth quarter of 2008. Current liabilities increased by $107.4 million to $805.6 million at December 31, 2009. This increase was primarily due to the reclassification of the Company s $100 million 6.75% debenture, due November 2010, from a long-term to a current liability. The Company s current ratio was 1.2 at December 31, 2009 and 1.3 at December 31, 2008.

The Company uses a notional pooling arrangement with an international bank to help manage global liquidity requirements. Under this pooling arrangement, the Company and its participating subsidiaries may maintain either a cash deposit or borrowing position through local currency accounts with the bank, so long as the aggregate position of the global pool is a notionally calculated net cash deposit. Because it maintains a security interest in the cash deposits, and has the right to offset the cash deposits against the borrowings, the bank provides the Company and its participating subsidiaries favorable interest terms on both.

Contractual Obligations

The following table summarizes contractual obligations at December 31, 2009:

			Payments Due In			
($ in millions)	*Total*	*2010*	*2011-2012*	*2013-2014*	*Beyond 2014*	*Uncertain*
Debt obligations	$ 580.8	$ 118.1	$ 14.4	$ 252.5	$ 195.8	$
Interest payments[1]	168.4	34.6	57.1	38.7	38.0	
Operating leases	115.7	33.2	44.8	21.7	16.0	

Income tax contingencies[2]	39.3					39.3
Purchase obligations[3]	253.7	40.3	77.1	70.4	65.9	
Total contractual obligations[4]	$ 1,157.9	$ 226.2	$ 193.4	$ 383.3	$ 315.7	$ 39.3

[1] Includes interest payments on outstanding fixed-rate, long-term debt obligations, including the fixed-rate interest on $150 million of debt due November 15, 2013 that has been swapped to a floating rate, as well as financing fees on the backstop line of credit.

[2] Due to the nature of this obligation, the Company is unable to estimate the timing of the cash outflows.

[3] Includes only long-term contractual commitments. (Does not include short-term obligations for the purchase of goods and services used in the ordinary course of business.)

[4] Excludes potential cash funding requirements of the Company s retirement plans and retiree health and life insurance plans.

Capital Resources

The Company reduced its total debt by $109.0 million during 2009 to a total of $580.8 million at December 31, 2009. This reduction was accomplished through net repayments of outstanding debt during the year of $116.2 million and a foreign currency translation impact of $7.2 million. 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 at December 31, 2008 and at various times throughout 2009, including year end. Offshore cash accessed was used in lieu of issuing commercial paper. Amounts outstanding under the rule at December 31, 2009 and 2008, were $10 million and $72 million, respectively. These short-term lending arrangements were subsequently settled within the 60 day provision, resulting in equivalent increases in commercial paper outstanding and cash on hand. Depending on its immediate offshore cash needs, the Company may choose to access such funds again in the future as allowed by this temporary rule.

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The Company operates a $500 million commercial paper program that provides a flexible source of domestic liquidity. The program is supported by the Company s five-year committed bank credit facility of an equal amount established May 3, 2006, with a syndicate of lenders that is committed until May 2011. In the event that a disruption of global credit markets were to prevent the Company from issuing commercial paper, it has the contractual right to draw funds directly on the underlying bank credit facility. Based on the information currently available to it, the Company believes its lenders have the ability to meet their obligations under the facility. At the Company s discretion, the borrowing rate for such loans could be based on either the agent bank s prime rate or a pre-established spread over the London InterBank Offered Rate (LIBOR). The Company had no commercial paper outstanding at December 31, 2009. When outstanding, commercial paper has typically been reported as a component of the Company s long-term debt.

Acquisitions and internal investments are key elements of the Company s growth strategy. The Company believes that cash on hand, cash generated from operations, and the available borrowing capacity under its existing credit agreement will enable it to support this strategy. Although the Company currently has no intent to do so, it may obtain additional financing in order to pursue its growth strategy. Although the Company believes that it has excess borrowing capacity beyond its current lines, there can be no assurance that such financing would be available or, if so, at terms that are acceptable to the Company.

The Company s various U.S and international defined benefit pension and postretirement plans were underfunded at the end of 2009 by approximately $330 million. During 2009, the Company contributed approximately $122 million to its benefit plans, including a voluntary contribution of $100 million to its U.S. qualified pension plan. The Company anticipates that contributions to its benefit plans will be approximately $22 million in 2010. Future funding requirements will depend largely on actual investment returns and future actuarial assumptions. Currently, however, no additional contributions to the U.S. qualified defined benefit pension plan are expected to be required until 2013 due to the voluntary contribution made in 2009 and the Company s ability to utilize funding credits from having previously funded the plan in excess of minimum requirements. Participation in the U.S. qualified defined benefit pension plan is frozen for salaried and non-union hourly U.S. employees hired on or after January 1, 2004. In February 2009, the plan was further amended to freeze service credit earned effective December 31, 2018. This change is expected to moderately reduce the volatility of long-term funding exposure and expenses.

Total equity increased $206.1 million during 2009 as net income of $155.1 million and other comprehensive income of $145.5 million was partially offset by dividends of $109.0 million. Other comprehensive income included an $80.8 million translation gain stemming from the impact of the weak U.S. dollar on the Company s foreign investments and a $56.1 million defined benefit plan adjustment stemming primarily from investment gains incurred during 2009 on the assets in the Company s various defined benefit plans. Total equity decreased $289.0 million during 2008. The decrease resulted mainly from net income of $157.3 million being more than offset by other comprehensive losses of $350.4 million and dividends of $107.4 million. Other comprehensive losses included a $144.6 million translation loss stemming from the impact of the strong U.S. dollar on the Company s foreign investments and a $194.1 million defined benefit plan adjustment stemming primarily from the 2008 investment losses incurred on the assets in the Company s various defined benefit plans.

The Company s Board of Directors has authorized the repurchase of up to 5.0 million shares of the Company s common stock. No shares were repurchased under this authorization during 2009 or 2008. Accordingly, at December 31, 2009, a total of 5.0 million shares remain available for repurchase.

Although the ultimate determination of whether to pay dividends is within the sole discretion of the Board of Directors, the Company plans to increase dividends as earnings grow. Dividends per common share were $1.08 in 2009, $1.07 in 2008 and $1.02 in 2007. On February 9, 2010, the Company declared a regular quarterly dividend of $0.27 per common share payable on March 10, 2010, to shareholders of record on February 19, 2010.

Off-Balance Sheet Arrangements

The Company had no material off-balance sheet arrangements at December 31, 2009.

Risk Management

As a result of operating globally, the Company is exposed to changes in foreign exchange rates. The exposure is well diversified as the Company s facilities are spread throughout the world, and the Company generally sells in the same countries where it produces. The Company monitors these exposures and may use traditional currency swaps and forward foreign exchange contracts to hedge a portion of the forecasted transactions that are denominated in foreign currencies, foreign currency assets and liabilities or net investment in foreign subsidiaries. The Company s foreign operations are exposed to political and cultural risks, but the risks are mitigated by diversification and the relative stability of the countries in which the Company has significant operations. The Company s operations in Venezuela and Greece may be impacted by the economic issues being faced in those countries; however, due to the relatively small size of these operations, the Company does not believe that any such impact would have a material adverse effect on the Company s financial statements.

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 manage its mix of fixed and variable rate debt and to control its exposure to interest rate movements within selected ranges. During the third quarter of 2009, 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. The effect of the interest rate derivative was a decrease of the total bond liability of $0.6 million at December 31, 2009. The fair value of this hedge was a net liability of $(0.6) million at December 31, 2009. No such instruments were outstanding at December 31, 2008.

The Company is a purchaser of various inputs such as recovered paper, energy, steel, aluminum and resin. The Company generally does

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not engage in significant hedging activities, other than for energy and, from time to time, aluminum, because there is usually a high correlation between the primary input costs and the ultimate selling price of its products. Inputs are generally purchased at market or at fixed prices that are established with individual vendors as part of the purchase process for quantities expected to be consumed in the ordinary course of business. On occasion, where the correlation between selling price and input price is less direct, the Company may enter into derivative contracts such as futures or swaps to reduce the effect of price fluctuations.

At December 31, 2009, the Company had contracts outstanding to fix the costs of a portion of commodity, energy and foreign exchange risks for various periods through December 2012. Of these, the Company had swaps to cover approximately 5.8 million MMBTUs of natural gas representing approximately 75%, 37% and 16% of anticipated U.S. and Canadian natural gas usage for 2010, 2011 and 2012, respectively. The Company also had hedges to cover the purchase of approximately 3,765 metric tons of aluminum representing approximately 27% of anticipated usage for 2010. At December 31, 2009, the Company had a number of foreign currency contracts in place as both designated and undesignated hedges of either anticipated foreign currency denominated transactions or existing financial assets and liabilities. At December 31, 2009, the total notional amount, in U.S. dollar terms, was $131 million, of which $97 million related to the Canadian dollar and $13 million to the Mexican peso.

The fair market value of derivatives was a net unfavorable position of $7.4 million ($4.6 million after tax) at December 31, 2009, and a net unfavorable position of $14.9 million ($7.2 million after tax) at December 31, 2008. Derivatives are marked to fair value using published market prices, if available, or estimated values based on current price quotes and a discounted cash flow model. See Note 9 to the Consolidated Financial Statements for more information on financial instruments.

The Company is subject to various federal, state and local environmental laws and regulations concerning, among other matters, solid waste disposal, wastewater effluent and air emissions. Although the costs of compliance have not been significant due to the nature of the materials and processes used in manufacturing operations, such laws also make generators of hazardous wastes and their legal successors financially responsible for the cleanup of sites contaminated by those wastes. The Company has been named a potentially responsible party at several environmentally contaminated sites, both owned and not owned by the Company. These regulatory actions and a small number of private party lawsuits are believed to represent the Company s largest potential environmental liabilities. The Company has accrued $63.8 million (including $60.4 million associated with U.S. Mills) at December 31, 2009, compared with $70.5 million at December 31, 2008 (including $67.4 million associated with U.S. Mills), with respect to these sites. See Environmental Charges, Item 3 Legal Proceedings, and Note 14 to the Consolidated Financial Statements for more information on environmental matters.

RESULTS OF OPERATIONS 2008 VERSUS 2007

Operating Revenue

Consolidated net sales for 2008 were $4.12 billion, an $82 million, or 2.0%, increase over 2007.

The components of the sales change were:

($ in millions)	
Selling price	$ 103
Acquisitions (net of dispositions)	71
Currency exchange rate	69
Volume/Mix	(161)
Total sales increase	$ 82

Average selling prices were generally higher throughout the Company, with the exceptions of Sonoco Recycling and point-of-purchase and fulfillment operations, as the Company was able to implement price increases in response to higher costs of labor, energy, freight and materials. Companywide volume, excluding service center revenue, which was on a pass-through basis, decreased approximately 4.4% from 2007 levels.

The overall volume decrease was driven by declines in Tubes and Cores/Paper, Packaging Services and All Other Sonoco. In Consumer Packaging, global rigid paper and plastic volume increased slightly despite the harsh economic conditions in the second half of the year. Total domestic sales were $2.6 billion, up 3% from 2007. International sales were $1.5 billion, basically flat with 2007 levels.

Costs and Expenses

In 2008, aggregate pension and postretirement expenses decreased $8.4 million to $25.8 million, versus $34.2 million in 2007. Approximately 75% of these expenses were reflected in cost of sales and the balance in selling, general and administrative expenses. There was a negative return on the assets of U.S.-based defined benefit plans of 24.3% in 2008, compared with a positive return of 8.4% in 2007.

Selling, general and administrative expenses as a percentage of sales decreased to 9.1% for 2008 from 10.1% in 2007. In total, these expenses declined $35.3 million year-over-year. Of the decline, $15.6 million was due primarily to lower 2008 incentive compensation costs related to diminished operating results, reduced pension and postretirement expenses and to fixed cost management pursued in response to the sharp economic downturn. The remaining change, $19.7 million, was attributable to a $25.2 million U.S. Mills environmental charge in 2007, partially offset by a $5.5 million recovery from an outside party of certain benefit costs. Base earnings exclude the environmental charge, which would decrease the 2007 selling, general and administration expenses as a percentage of sales to 9.5%.

Operating results also reflect restructuring and restructuring-related asset impairment charges of $57.4 million and $36.2 million in 2008 and 2007, respectively. In addition, 2008 results include a $42.7 million noncash financial asset impairment charge for the Company s remaining financial interest related to the 2003 sale of its high-density film business. These items are excluded for the purpose of calculating base earnings.

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Research and development costs, all of which were charged to expense, totaled $15.9 million and $15.6 million in 2008 and 2007, respectively.

Net interest expense totaled $47.2 million for the year ended December 31, 2008, compared with $52.3 million in 2007. The decrease was due primarily to lower average debt levels and lower average interest rates.

The 2008 effective tax rate was 27.1%, compared with 21.6% in 2007. The year-over-year increase in the effective tax rate was due primarily to the 2007 release of tax reserves on expiration of statutory assessment periods in an amount greater than in 2008, and foreign tax rate reductions due to tax law changes in 2007. The 2008 results also include a benefit from basis adjustments to acquired assets under new provisions in the Italian tax code and the unfavorable impact of a capital loss for which the ultimate recognition of a benefit was uncertain and a valuation allowance had to be established. The effective tax rate on base earnings was 29.4% in 2008 versus 27.8% in 2007. The 2007 release of certain tax reserves totaling $11.7 million is excluded from that year s base earnings calculation.

Net income attributable to Sonoco was $164.6 million in 2008, versus $214.2 million for 2007. Base earnings were $226.4 million in 2008, compared with $242.4 million in 2007.

Reportable Segments

Consolidated operating profits, also referred to as Income before income taxes on the Consolidated Statements of Income, are comprised of the following:

($ in millions)	*2008*	*2007*	*% Change*
Consumer Packaging segment	$ 131.0	$ 105.5	24.1%
Tubes and Cores/Paper segment	145.8	168.8	(13.6)%
Packaging Services segment	28.5	43.5	(34.6)%
All Other Sonoco	44.4	51.4	(13.6)%
Restructuring/impairment and environmental charges	(100.1)	(61.3)	(63.1)%
Interest expense, net	(47.2)	(52.3)	9.7%
Consolidated operating profits	$ 202.4	$ 255.6	(20.8)%

Consumer Packaging

($ in millions)	*2008*	*2007*	*% Change*
Trade sales	$ 1,586.5	$ 1,455.0	9.0%
Segment operating profits	131.0	105.5	24.1%
Depreciation, depletion and amortization	73.7	67.3	9.5%
Capital spending	41.8	74.7	(44.0)%

Prior year results have been restated for a reclassification between segments of a small global brand artwork management business that was previously included in the Packaging Services segment. The impact of this reclassification was to transfer sales of $16.1 million and $16.9 million, and operating profits of $0.6 million and $1.0 million, in 2008 and 2007, respectively, from the Packaging Services segment to the Consumer Packaging segment.

Sales in this segment increased due to the full year impact of the May 2007 acquisition of Matrix Packaging, Inc. along with increased selling prices throughout the segment. In addition, even though the dollar strengthened during the second half of the year, the total year impact of exchange rates was favorable by $4.6 million. These favorable impacts were partially offset by lower volume in flexible packaging, closures and rigid plastic packaging. Overall segment volumes, excluding the impact of acquisitions, were down less than 1%. Domestic sales were approximately $1,181 million, up 15.0% from 2007, and international sales were approximately $406 million, down 5.2% from 2007. The decline in international sales reflected the shutdown of a metal ends plant in Brazil and the subsequent transfer of a majority of its business into the United States.

Segment operating profits increased primarily due to the impact of productivity and purchasing initiatives along with the full year impact of the May 2007 acquisition of Matrix Packaging, Inc. 2008 earnings benefited from the shutdown of two plants that detracted from 2007 results, partially offset by the negative impact of a plant startup in Ohio. The productivity and purchasing gains were partially offset by the small overall decline in volume and an unfavorable shift in the mix of business. In 2008, selling price increases were able to effectively offset the increased costs of raw materials, freight, energy and labor.

Significant capital spending included increasing rigid plastic container production capacity in the United States and productivity projects throughout the segment.

Tubes and Cores/Paper

($ in millions)	*2008*	*2007*	*% Change*
Trade sales	$ 1,674.6	$ 1,712.0	(2.2)%
Segment operating profits	145.8	168.8	(13.6)%
Depreciation, depletion and amortization	87.6	91.2	(3.8)%
Capital spending	70.5	75.7	(6.8)%

The decrease in sales was due to volume shortfalls throughout the segment and the closure of an under-performing paper mill in China. The volume shortfalls were partially offset by increased selling prices for converted products and the effect of favorable exchange rates. The impact of lower volume, the majority of which occurred during the fourth quarter of the year, was felt throughout the segment, but most significantly in North American and European tube and core operations. Excluding the net impact of divestitures, volume in the segment decreased by approximately 6%. Domestic sales decreased approximately $25 million, or 3.0%, to approximately $800 million. International sales decreased approximately $12 million, or 1.4% to approximately $875 million, with the lower decline reflecting the benefit of a weaker dollar throughout much of the year.

Lower volumes and an unfavorable shift in the mix of business hampered 2008 results. Productivity and purchasing initiatives along with the impact of closing the paper facility in China favorably impacted 2008 results. Somewhat offsetting these benefits were higher energy, freight, material and labor costs that were not fully recovered by selling price increases.

Significant capital spending included the modification of several paper machines, primarily in the United States and Europe, and productivity projects throughout the segment.

Packaging Services

($ in millions)	*2008*	*2007*	*% Change*
Trade sales	$ 501.4	$ 502.0	(0.1)%
Segment operating profits	28.5	43.5	(34.6)%
Depreciation, depletion and amortization	11.0	11.0	(0.2)%
Capital spending	2.6	3.2	(17.1)%

Sales decreased slightly as volume shortfalls and lower selling prices were mostly offset by a favorable impact from exchange rates and added sales from a small acquisition. The selling price decreases were primarily the result of competitive bidding activity in the latter half of 2007, the impacts of which were not fully realized until 2008. Domestic sales decreased to approximately $334 million, a 10.7% reduction, while international sales increased to approximately $167 million, up 30.9%, primarily as a result of increased service center volume in Poland.

The decrease in segment operating profits was attributable to lower selling prices and volume decreases in point-of-purchase and fulfillment operations. In addition, lower capacity utilization negatively impacted productivity. Although service center volume increased, it had very little impact on profits as these sales were on a pass-through basis with no significant additional gross margin.

Capital spending included capacity expansion in Europe as well as numerous productivity and customer development projects in the United States and Europe.

All Other Sonoco

($ in millions)	*2008*	*2007*	*% Change*
Trade sales	$ 359.9	$ 371.1	(3.0)%
Operating profits	44.4	51.4	(13.6)%
Depreciation, depletion and amortization	10.7	11.8	(9.8)%
Capital spending	8.1	15.9	(48.9)%

Sales for All Other Sonoco decreased on lower volumes in molded plastics, protective packaging and wire and cable reels, which were partially offset by selling price increases and the effect of favorable exchange rates. Domestic sales were approximately $282 million, down 4.1% from 2007, and international sales were approximately $78 million, an increase of 1.2%.

Operating profits in All Other Sonoco decreased due to volume declines and an unfavorable shift in the mix of business, partially offset by manufacturing productivity and purchasing initiatives. Through higher selling prices, the Company was able to recover increases in raw material costs but not higher costs of energy, freight and labor.

Capital spending included investing in productivity and customer development projects in the United States, Europe and Asia for molded and extruded plastics, protective packaging and wire and cable reels.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management s discussion and analysis of the Company s financial condition and results of operations are based upon the Company s Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The Company evaluates these estimates and assumptions on an ongoing basis, including but not limited to those related to inventories, bad debts, derivatives, income taxes, intangible assets, restructuring, pension and other postretirement benefits, environmental liabilities and contingencies and litigation. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates. The impact of and any associated risks related to estimates, assumptions and accounting policies are discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as in the Notes to the Consolidated Financial Statements, if applicable, where such estimates, assumptions and accounting policies affect the Company s reported and expected financial results.

The Company believes the accounting policies discussed in the Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K are critical to understanding the results of its operations. The following discussion represents those policies that involve the more significant judgments and estimates used in the preparation of the Company s Consolidated Financial Statements.

Impairment of Long-lived, Intangible and Other Assets

Assumptions and estimates used in the evaluation of potential impairment can result in adjustments affecting the carrying values of long-lived, intangible and other assets and the recognition of impairment expense in the Company s Consolidated Financial Statements. The Company evaluates its long-lived assets (property, plant and equipment), definite-lived intangible assets and other assets (including notes receivable and equity investments) for impairment whenever indicators of impairment exist, or when it commits to sell the asset. If the sum of the undiscounted expected future cash flows from a long-lived asset or definite-lived intangible asset group is less than the carrying value of that asset group, an asset impairment charge is recognized. Key assumptions and estimates used in the cash flow model generally include price levels, sales growth, profit margins and asset life. The amount of an impairment charge, if any, is calculated as the excess of the asset s carrying value over its fair value, generally represented by the discounted future cash flows from that asset or, in the case of assets the Company evaluates for sale, as estimated proceeds less costs to sell.

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The Company takes into consideration historical data and experience together with all other relevant information available when estimating the fair values of its assets. However, fair values that could be realized in actual transactions may differ from the estimates used to evaluate impairment. In addition, changes in the assumptions and estimates may result in a different conclusion regarding impairment.

Impairment of Goodwill

In accordance with US GAAP, the Company evaluates its goodwill for impairment annually and whenever events happen or circumstances change that would make it more likely than not that impairment may have occurred. If the carrying value of a reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment charge is recognized for the excess.

The Company s reporting units are one level below its operating segments, as determined in accordance with applicable US GAAP. The Company uses a discounted cash flow model to estimate the fair value of its reporting units with consideration given to market and trading multiples. The Company s model discounts future cash flows, forecasted over a ten-year period, with an estimated residual growth rate. In order to project and discount the future cash flows associated with each reporting unit, the Company must make a number of assumptions and estimates. In addition to the assumed discount and residual growth rates, these assumptions and estimates include future market size and market share, sales volumes and prices, costs to produce, working capital changes, capital spending requirements and the impact of currency exchange rates. When estimating the fair values of its reporting units, the Company s analysis takes into consideration historical data and experience together with all other relevant information available. However, because the analysis is an estimate, fair values that could be realized in actual transactions may differ from those used to evaluate the impairment of goodwill. In addition, changes in the underlying assumptions and estimates may result in a different conclusion regarding impairment.

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. Due to volume declines associated with the economic recession, recent annual cash flow run rates for a number of the Company s reporting units would not be sufficient to support the carrying values of their goodwill. In its annual evaluation of goodwill, management projected that these units would experience sustainable recoveries in volumes and cash flows over the next few years in conjunction with a general economic recovery. Given the improved economic environment since the time of the evaluation, management believes this assumption continues to be reasonable, if not highly likely.

Reporting units with significant goodwill whose results need to show improvement beyond that expected from a recovery in the general economy to assure that there will not be a future impairment include Matrix Packaging, Molded Plastics, and Tubes & Cores/Paper Europe. In addition, the Company s Australian Rigid Paper Containers unit will need to show significant improvement from current performance levels. 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. 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 Matrix Packaging, Tubes & Cores/Paper Europe, Molded Plastics, and Rigid Paper Containers Australia was approximately $127.6 million, $108.9 million, $41.9 million, and $5.4 million, respectively at December 31, 2009.

Matrix Packaging manufactures blow-molded plastic containers primarily for use in nonfood applications. Matrix Packaging was acquired in May 2007 to be a growth platform for the Company and to expand the Company s operations into the health and beauty market. Since that time, the Company has continued to invest significantly in the organic growth of the business. Growth is expected to be driven by new business wins from key nonfood customers and expansion into more food-based applications. In the annual evaluation of goodwill impairment, the estimated fair value of Matrix Packaging exceeded its carrying value by approximately $58 million, or 25%.

Molded Plastics designs and manufactures, using injection molding and extrusion technologies, various consumer food and food service products, medical devices and disposables and various industrial products used primarily in the textile, wire and cable, fiber optics, filtration and automotive industries. Sales growth back to pre-recession levels is forecast over the next three years on improvements in those markets hard-hit by the economic downturn. Partially through restructuring activities, fixed costs are expected to decrease, which, when combined with the resurgence of volume, is expected to lead to margins exceeding pre-recession levels. In the annual evaluation of goodwill impairment, the estimated fair value of Molded Plastics exceeded its carrying value by approximately $12 million, or 14%.

Tubes and Cores/Paper Europe manufactures tubes and cores, using internally produced recycled paperboard, for sale to a variety of industrial industries throughout Europe. Any paperboard not used internally is sold to third parties. Hard-hit by the global recession, tube and core volume declined approximately 13% in 2009 from the previous year. Management feels that sales will gradually return to pre-recession levels with growth coming from both western European countries as well as frontier countries, such as Russia, Estonia and Poland. Margins are expected to slowly increase from the low level experienced in 2009. In the annual evaluation of goodwill impairment, the estimated fair value of Tubes and Cores/Paper Europe exceeded its carrying value by approximately $81 million, or 28%.

During the time subsequent to the annual evaluation and at December 31, 2009, the Company considered whether any events and/or changes in circumstances had resulted in the likelihood that the goodwill of any of its reporting units may have been impaired. As a result of bidding activity conducted in the fourth quarter by a major customer of the Global Services unit, the Company expects to lose a significant portion of that customer s business in 2010. Further, another of the unit s customers notified the Company of its intention

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to consolidate its business under a different vendor beginning in 2011. In response to these developments, the Company reevaluated the goodwill and intangibles of this unit for impairment during the fourth quarter and concluded no impairment had occurred. The Company s reevaluation indicated the estimated fair value of the Global Services unit exceeded its carrying value by approximately $51 million, or 22%. Based on management s evaluation of future projects and other opportunities, the Company expects new business will offset a significant portion of the lost business. If the Company s assessment of the relevant facts and circumstances changes, economic conditions fail to improve, or actual performance falls short of expected results, noncash impairment charges may be required. Total goodwill associated with Global Services was approximately $150.1 million at December 31, 2009.

Holding the other valuation assumptions constant, a downward shift in projected operating profits across all future periods in Matrix Packaging, Tubes and Cores/Paper Europe, Molded Plastics and Global Services in excess of 24%, 24%, 11% and 31%, respectively, would indicate that the carrying value of the respective business unit may be in excess of fair value. The future operating performance of these units is dependent upon a number of variables which cannot be predicted with certainty.

Income Taxes

The Company records an income tax valuation allowance when the realization of any deferred tax assets, net operating losses and capital loss carryforwards is not likely. Deferred tax assets generally represent expenses recognized for financial reporting purposes, which will result in tax deductions over varying future periods. Certain judgments, assumptions and estimates may affect the amounts of the valuation allowance and deferred income tax expense in the Company s Consolidated Financial Statements.

For those tax positions where it is more likely than not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. For those positions not meeting the more-likely-than-not standard, no tax benefit has been recognized in the financial statements. Associated interest has also been recognized, where applicable.

The estimate for the potential outcome for any uncertain tax issue is highly judgmental. The Company believes it has adequately provided for any reasonably foreseeable outcome related to these matters. However, future results may include favorable or unfavorable adjustments to estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitations on potential assessments expire. Additionally, the jurisdictions in which earnings or deductions are realized may differ from current estimates. As a result, the effective tax rate may fluctuate significantly.

Stock-based Compensation Plans

The Company utilizes share-based compensation in the form of stock options, stock appreciation rights, restricted stock units and other share-based awards. Certain awards are in the form of contingent stock units where both the ultimate number of units and the vesting period are performance based. The amount and timing of compensation expense associated with these performance-based awards are based on estimates regarding future performance using measures defined in the plans. In 2009, the performance measures consisted of Earnings per Share and Return on Net Assets Employed. Changes in estimates regarding the future achievement of these performance measures may result in significant fluctuations from period to period in the amount of compensation expense reflected in the Company s Consolidated Financial Statements.

The Company uses a binomial option-pricing model to determine the grant date fair value of its stock options and stock appreciation rights. The binomial option-pricing model requires the input of subjective assumptions. Management routinely assesses the assumptions and methodologies used to calculate estimated fair value of share-based compensation. Circumstances may change and additional data may become available over time that results in changes to these assumptions and methodologies, which could materially impact fair value determinations.

Pension and Postretirement Benefit Plans

The Company has significant pension and postretirement benefit costs that are developed from actuarial valuations. The actuarial valuations employ key assumptions, which are particularly important when determining the Company s projected liabilities for pension and other postretirement benefits. The key actuarial assumptions used at December 31, 2009, in determining the projected benefit obligation and the accumulated benefit obligation for U.S. retirement and retiree health and life insurance plans include: a discount rate of 5.77%, 5.49% and 5.08% for the qualified retirement plan, non-qualified retirement plans, and retiree health and life insurance plan, respectively; an expected long-term rate of return on plan assets of 8.5%; and a rate of compensation increase ranging from 4.46% to 6.50%. Weighted average discount rates of 6.48%, 6.49% and 6.19% were used to determine net periodic benefit cost for 2009 for the qualified retirement plan, non-qualified retirement plans, and retiree health and life insurance plan, respectively.

The Company adjusts its discount rates at the end of each fiscal year based on yield curves of high-quality debt instruments over durations that match the expected benefit payouts of each plan. The expected rate of return assumption is derived by taking into consideration the targeted plan asset allocation, projected future returns by asset class and active investment management. A third party asset return model was used to develop an expected range of returns on plan investments over a 12 to 15 year period, with the expected rate of return selected from a best estimate range within the total range of projected results. The Company periodically rebalances its plan asset portfolio in order to maintain the targeted allocation levels. The rate of compensation increase assumption is generally based on salary and incentive increases. A key assumption for the U.S. retiree health and life insurance plan is a medical trend rate beginning at 9.3% for post-age 65 participants and trending down to an ultimate rate of 6.0% in 2014. The ultimate trend rate of 6.0% represents the Company s best estimate of the long-term average annual medical cost increase over the duration of the plan s liabilities. It provides for real growth in medical costs in excess of the overall inflation level.

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During 2009, the Company recorded total pension and postretirement benefit expenses of approximately $77.2 million, compared with $26.3 million during 2008. The 2009 amount is net of $60.5 million of expected returns on plan assets at the assumed rate of 8.5%, and includes interest cost of $76.9 million at a weighted-average discount rate of 6.56%. The 2008 amount is net of $91.7 million of expected returns on plan assets at the assumed rate of 8.5%, and includes interest cost of $78.3 million at a weighted-average discount rate of 6.28%. During 2009, the Company made contributions to pension plans of $113.2 million and postretirement plans of approximately $1.4 million. The contribution amount varies from year to year depending on factors including asset market values and interest rates. Although these contributions reduced cash flows from operations during the year, they did not have an immediate significant impact on pension expense. Cumulative net actuarial losses were approximately $519 million at December 31, 2009, and are primarily the result of poor asset performance in 2008 and from 2000 through 2002. The amortization period for losses/gains is approximately 11 years for the portion outside the 10% corridor as defined by U.S. GAAP, except for curtailments, which may result in accelerated income or expense.

Other assumptions and estimates impacting the projected liabilities of these plans include inflation, participant withdrawal and mortality rates and retirement ages. The Company annually reevaluates assumptions used in projecting the pension and postretirement liabilities and associated expense. These judgments, assumptions and estimates may affect the carrying value of pension and postretirement plan net assets and liabilities and pension and postretirement plan expenses in the Company s Consolidated Financial Statements. The sensitivity to changes in the critical assumptions for the Company s U.S. plans as of December 31, 2009 is as follows:

Assumption *($ in millions)*	*Percentage Point Change*	*Projected Benefit Obligation Higher/(Lower)*	*Annual Expense Higher/ (Lower)*
Discount rate	-.25 pts	$ 30.0	$ 2.9
Expected return on assets	-.25 pts	N/A	$ 1.4

See Note 12 to the Consolidated Financial Statements for additional information on the Company s pension and postretirement plans.

RECENT ACCOUNTING PRONOUNCEMENTS

Information regarding recent accounting pronouncements is provided in Note 18 of the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information regarding market risk is provided in this Annual Report on Form 10-K under the following items and captions: Conditions in foreign countries where the Company operates may reduce earnings and Foreign exchange rate fluctuations may reduce the Company s earnings in Item 1A Risk Factors; Risk Management in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations; and in Note 8 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements and Notes to the Consolidated Financial Statements are provided on pages F-1 through F-29 of this report. Selected quarterly financial data is provided in Note 19 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

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n REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND DIRECTORS OF SONOCO PRODUCTS COMPANY:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Sonoco Products Company and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Charlotte, North Carolina

February 26, 2010

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n CONSOLIDATED BALANCE SHEETS

Sonoco Products Company

(Dollars and shares in thousands)

At December 31	*2009*	*2008*
Assets		
Current Assets		
Cash and cash equivalents	**$ 185,245**	$ 101,655
Trade accounts receivable, net of allowances of $10,978 in 2009 and $9,269 in 2008	**428,293**	392,171
Other receivables	**35,469**	46,827
Inventories		
Finished and in process	**114,652**	125,200
Materials and supplies	**173,876**	188,969
Prepaid expenses	**33,300**	50,259
Deferred income taxes	**25,738**	24,909
	996,573	929,990
Property, Plant and Equipment, Net	**926,829**	973,442
Goodwill	**813,530**	782,983
Other Intangible Assets, Net	**115,044**	120,540
Long-term Deferred Income Taxes	**57,105**	132,536
Other Assets	**153,499**	146,975
Total Assets	**$ 3,062,580**	$ 3,086,466
Liabilities and Equity		
Current Liabilities		
Payable to suppliers	**$ 375,365**	$ 353,846
Accrued expenses and other	**231,631**	249,154
Accrued wages and other compensation	**68,319**	50,274
Notes payable and current portion of long-term debt	**118,053**	32,978
Accrued taxes	**12,271**	11,944
	805,639	698,196
Long-term Debt	**462,743**	656,847
Pension and Other Postretirement Benefits	**321,355**	455,197
Deferred Income Taxes	**30,571**	50,450
Other Liabilities	**61,642**	51,258
Commitments and Contingencies		
Sonoco Shareholders Equity		
Serial preferred stock, no par value		
Authorized 30,000 shares 0 shares issued and outstanding as of December 31, 2009 and 2008		
Common shares, no par value		
Authorized 300,000 shares 100,149 and 99,732 shares issued and outstanding at December 31, 2009 and 2008, respectively	**7,175**	7,175
Capital in excess of stated value	**421,632**	404,939

Accumulated other comprehensive loss	**(310,469)**	(454,679)
Retained earnings	**1,248,043**	1,205,540
Total Sonoco Shareholders Equity	**1,366,381**	1,162,975
Noncontrolling Interests	**14,249**	11,543
Total Equity	**1,380,630**	1,174,518
Total Liabilities and Equity	**$ 3,062,580**	$ 3,086,466

The Notes beginning on page F-6 are an integral part of these financial statements.

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n **CONSOLIDATED** STATEMENTS OF INCOME

Sonoco Products Company

(Dollars and shares in thousands except per share data)

Years ended December 31	*2009*	*2008*	*2007*
Net sales	**$ 3,597,331**	$ 4,122,385	$ 4,039,992
Cost of sales	**2,931,285**	3,398,355	3,286,198
Gross profit	**666,046**	724,030	753,794
Selling, general and administrative expenses	**386,459**	374,396	409,719
Restructuring/Asset impairment charges	**26,801**	100,061	36,191
Income before interest and income taxes	**252,786**	249,573	307,884
Interest expense	**40,992**	53,401	61,440
Interest income	**(2,427)**	(6,204)	(9,182)
Income before income taxes	**214,221**	202,376	255,626
Provision for income taxes	**66,818**	54,797	55,186
Income before equity in earnings of affiliates	**147,403**	147,579	200,440
Equity in earnings of affiliates, net of tax	**7,742**	9,679	11,586
Net income	**155,145**	157,258	212,026
Less: Net income/(loss) attributable to noncontrolling interests	**3,663**	(7,350)	(2,130)
Net income attributable to Sonoco	**$ 151,482**	$ 164,608	$ 214,156
Weighted average common shares outstanding:			
Basic	**100,780**	100,321	100,632
Assuming exercise of awards	**249**	665	1,243
Diluted	**101,029**	100,986	101,875
Per common share			
Net income attributable to Sonoco:			
Basic	**$ 1.50**	$ 1.64	$ 2.13
Diluted	**$ 1.50**	$ 1.63	$ 2.10
Cash dividends	**$ 1.08**	$ 1.07	$ 1.02

n **CONSOLIDATED** STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

Sonoco Products Company

(Dollars in thousands)

Years ended December 31	*2009*	*2008*	*2007*
Net income	**$ 155,145**	$ 157,258	$ 212,026
Other comprehensive income/(loss):			

Foreign currency translation adjustments	**80,780**	(144,612)	98,482
Changes in defined benefit plans, net of tax	**56,149**	(194,149)	58,958
Change in derivative financial instruments, net of tax	**8,526**	(11,600)	524
Comprehensive income/(loss)	**300,600**	(193,103)	369,990
Less: Comprehensive income/(loss) attributable to noncontrolling interests	**4,908**	(10,406)	903
Comprehensive income/(loss) attributable to Sonoco	**$ 295,692**	$ (182,697)	$ 369,087

The Notes beginning on page F-6 are an integral part of these financial statements.

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n CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY

Sonoco Products Company

(Dollars and shares in thousands)	*Total Equity*	*Common Shares Outstanding*	*Amount*	*Capital in Excess of Stated Value*	*Accumulated Other Comprehensive Loss*	*Retained Earnings*	*Non-controlling Interests*
January 1, 2007	$ 1,240,114	100,550	$ 7,175	$ 430,002	$ (262,305)	$ 1,044,196	$ 21,046
Net income	212,026					214,156	(2,130)
Other comprehensive income:							
Translation gain	98,482				95,449		3,033
Defined benefit plan adjustment[1]	58,958				58,958		
Derivative financial instruments[1]	524				524		
Other comprehensive income	157,964				154,931		3,033
Cash dividends	(102,658)					(102,658)	
Adjustment to initially apply FASB Interpretation No. 48	(5,586)					(5,586)	
Issuance of stock awards	59,832	1,881		59,832			
Shares repurchased	(109,206)	(3,000)		(109,206)			
Stock-based compensation	11,000			11,000			
December 31, 2007	$ 1,463,486	99,431	$ 7,175	$ 391,628	$ (107,374)	$ 1,150,108	$ 21,949
Net income	157,258					164,608	(7,350)
Other comprehensive loss:							
Translation loss	(144,612)				(141,556)		