DOLLAR TREE INC
Form PRE 14A
May 07, 2010

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

x	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

DOLLAR TREE, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.	
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
	(1)	Title of each class of securities to which transaction applies:
	(2)	Aggregate number of securities to which transaction applies:
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
	(4)	Proposed maximum aggregate value of transaction:
	(5)	Total fee paid:
o	Fee paid previously with preliminary materials.	
o	Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.	
	(1)	Amount Previously Paid:
	(2)	Form, Schedule or Registration Statement No.:
	(3)	Filing Party:
	(4)	Date Filed:

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DOLLAR TREE, INC.

500 Volvo Parkway

Chesapeake, Virginia 23320

NOTICE OF

ANNUAL MEETING OF SHAREHOLDERS

to be held on

Thursday, June 17, 2010

To Our Shareholders:

We will hold the annual meeting of shareholders of Dollar Tree, Inc. at The Westin Virginia Beach Town Center, 4535 Commerce Street, Virginia Beach, Virginia 23462 on Thursday, June 17, 2010 at 10:00 a.m. local time. Shareholders will consider and vote on the following:

- Four directors nominated by the Board of Directors;
- Management s proposal to declassify the Board of Directors;
- Management s proposal to increase authorized shares of common stock; and
- Any other business that may properly come before the meeting.

Shareholders of record at the close of business on April 16, 2010 will receive notice of and be allowed to vote at the meeting.

Your vote is important to us. We encourage you to read the attached proxy statement then sign, date and return your proxy card in the enclosed envelope at your earliest convenience. Sending in your proxy card will not prevent you from voting your shares at the meeting, if you desire to do so.

BY ORDER OF THE BOARD OF DIRECTORS

James A. Gorry, III
Corporate Secretary

Chesapeake, Virginia
May 21, 2010

IMPORTANT NOTICE ABOUT THE AVAILABILITY OF PROXY MATERIALS

FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 17, 2010

The Company s proxy statement and annual report to shareholders for the fiscal year ended January 30, 2010 are available at http://www.dollartreeinfo.com/investors/financial/annuals/

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INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Dollar Tree s Board of Directors is soliciting your proxy to vote your shares at the annual meeting of shareholders. This proxy statement summarizes the information you need to know to vote at the meeting.

We began mailing these proxy materials on or about May 21, 2010 to all shareholders entitled to vote. The Dollar Tree 2009 Annual Report, which includes our financial statements, is being sent with this proxy statement.

The principal executive offices of Dollar Tree are located at, and our mailing address is, 500 Volvo Parkway, Chesapeake, Virginia, 23320; telephone: (757) 321-5000.

When and where is the annual meeting?

As shown in the Notice of Annual Meeting, the 2010 annual meeting of shareholders of Dollar Tree, Inc. will be held on Thursday, June 17, 2010, at The Westin Virginia Beach Town Center, 4535 Commerce Street, Virginia Beach, Virginia 23462 at 10:00 a.m. local time.

Who is entitled to vote at the meeting?

You are entitled to vote if you were a shareholder of record of our common stock as of the close of business on April 16, 2010. Holders of record have one vote for each share held at the close of business. At that time, there were 84,784,838 shares of Dollar Tree, Inc. common stock outstanding. Votes will be tabulated by our transfer agent, Computershare.

What is the difference between a shareholder of record and a beneficial owner of shares held in street name?

If your shares are registered directly in your name with the Company s transfer agent, Computershare, you are a shareholder of record. If your shares are held in an account at a brokerage firm, bank, or similar institution, then you are the beneficial owner of shares held in street name. The institution holding your account is considered the shareholder of record for purposes of voting at the annual meeting. As the beneficial owner, you have the right to instruct the institution on how to vote the shares held in your account.

How can I cast my vote?

Shareholder of Record

If you are a shareholder of record, you may vote in person at the annual meeting, vote by proxy using the enclosed proxy card or vote over the telephone or the Internet.

- To vote in person, we will give you a ballot to vote your shares when you arrive at the meeting.
- To vote using the enclosed proxy card, simply complete, sign, date and return it promptly in the envelope provided. If you send more than one proxy card, then your shares will be voted in accordance with the proxy card bearing the latest date.
- To vote by Internet, go to www.investorvote.com/DLTR and follow the steps outlined on the secured website.
- To vote by telephone, dial toll free, 1-800-652-VOTE (8683) within the USA, US territories & Canada any time on a touch tone telephone. Follow the instructions provided by the recorded message.

Beneficial Owner

- To vote using the enclosed proxy card, simply complete, sign, date and return it promptly in the envelope provided. If you send more than one proxy card, then your shares will be voted in accordance with the proxy card bearing the latest date.
- To vote by Internet, go to www.proxyvote.com and follow the steps outlined on the secured website.
- To vote by telephone, dial toll free, 1-800-579-1639 (please note that beneficial shareholders may receive a different number based on their broker).

Shareholders who own their shares in street name are not able to vote at the annual meeting unless they have a proxy, executed in their favor, from the holder of record of their shares.

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What are the Board s voting recommendations?

The Board recommends that you vote your shares:

- FOR re-electing four members of the Board as Class III directors;
- FOR approving management s proposal to declassify the Board of Directors; and
- FOR approving management s proposal to increase the authorized shares of common stock.

Can I change my voting instructions before the meeting?

You may revoke your proxy by sending in a signed proxy card with a later date, providing subsequent telephone or Internet voting instructions, providing a written notice of revocation to the Corporate Secretary of Dollar Tree, Inc. prior to the annual meeting or attending the annual meeting to cast your vote in person.

What constitutes a quorum requirement?

A quorum is necessary for the transaction of business at the annual meeting. A quorum exists when holders of a majority of the total number of issued and outstanding shares of common stock that are entitled to vote at the annual meeting are present in person or by proxy.

Who will count the votes?

A representative of Computershare, our transfer agent, will act as the Inspector of Election, determine the presence of a quorum and tabulate the votes.

What is the effect of abstentions and broker non-votes?

The inspector will treat valid proxies marked abstain or proxies required to be treated as broker non-votes as present for purposes of determining whether there is a quorum at the annual meeting. A broker non-vote occurs when a broker or nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because the broker or nominee does not have discretionary voting power and has not received instructions from the beneficial owner of the shares. Abstentions with respect to any matter will have the same effect as a vote against that proposal.

Brokers may vote on routine matters but do not have discretionary power to vote your shares on non-routine matters unless the broker receives appropriate instructions from you. The election of directors is considered a non-routine matter. Due to recent rule changes, brokers will no longer be able to vote your shares with respect to the election of directors if you have not provided instructions. Therefore, we strongly urge you to vote your shares.

If I share an address with another shareholder and we receive only one paper copy of proxy materials, how can I obtain an additional copy of proxy materials?

In some cases, only one proxy statement is being delivered to multiple shareholders sharing an address unless we have received contrary instructions from one or more of the shareholders. Upon written or oral request, we will deliver a separate copy of the proxy statement to a shareholder at a shared address to which a single copy of the proxy statement was delivered. You can notify our Corporate Secretary at our address on page 1 that you wish to receive a separate copy of the proxy statement in the future, or alternatively, that you wish to receive a single copy of the materials instead of multiple copies. Each shareholder will receive voting instructions relative to their individual holdings, regardless of a shared address.

How can I obtain an additional proxy card?

If you lose, misplace or otherwise need to obtain a proxy card and you are a shareholder of record, you should contact Computershare at 1-800-622-6757 (US, Canada, Puerto Rico) or 781-575-4735 (non-US).

If you hold your shares of common stock in street name and therefore are not a shareholder of record, contact your account representative at the broker, bank or similar institution through which you hold your shares.

Where and when will I be able to find the voting results?

You can find the official voting results on our Form 8-K within four business days after the annual meeting.

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Who pays for the costs of the proxy solicitations?

The cost of soliciting proxies will be borne by us. Proxies may be solicited by officers, directors and regular employees of our company or our affiliates, none of whom will receive any additional compensation for their services. Such solicitations may be made personally, or by mail, facsimile, telephone, telegram or messenger. We will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy material and annual reports to the beneficial owners of shares in accordance with the schedule of charges approved by the National Association of Securities Dealers, Inc. We have retained Georgeson Inc. to assist with the solicitation of proxies for a fee not to exceed $20,000, plus reimbursement for out-of-pocket expenses.

PROPOSAL NO. 1- ELECTION OF DIRECTORS

Directors and Nominees

Our Board of Directors is currently divided into three staggered classes for purposes of election. One class is elected at each annual meeting of shareholders to serve for a three-year term. Our current by-laws provide for twelve directors.

In August 2009, the Board of Directors unanimously voted to recommend at the 2010 annual meeting an amendment to Dollar Tree s Articles of Incorporation to declassify the Board. If our shareholders approve the proposed amendment, directors who have been elected to three-year terms prior to the effectiveness of the amendment, including directors elected at the 2010 meeting, will complete those terms. Beginning with the 2011 meeting, directors whose previous terms are expiring will be subject to election for a one-year term expiring at the next annual meeting.

At the 2010 annual meeting of shareholders, the terms of the following Class III directors are expiring: H. Ray Compton, Lemuel E. Lewis, and Bob Sasser. The Board proposes to nominate these three directors to be re-elected as Class III directors at the 2010 annual meeting of shareholders. Also at this year s meeting, our newly appointed Class III director, Conrad M. Hall, is required to stand for election. The Board originally appointed Mr. Hall to his seat on January 14, 2010. If so elected, the four Class III directors will hold office for a three-year term expiring at the annual meeting of shareholders held in 2013.

All other directors will continue in office following this annual meeting and their terms will expire in either 2011 (Class I) or 2012 (Class II). Provided that our shareholders approve the management proposal to amend the Articles of Incorporation to eliminate the classified structure, the entire Board will be elected annually beginning with the 2013 annual meeting.

The nominees have indicated their willingness to serve as directors. If a nominee becomes unable to stand for re-election, the persons named in the proxy will vote for any substitute nominee proposed by the Board of Directors.

Vote Required

Our directors are elected by a plurality vote. The four nominees at the 2010 Annual Meeting of Shareholders receiving the greatest number of votes cast will be elected. Shares held by brokers that are not voted in the election of directors will have no effect. In addition, we have adopted a corporate governance policy requiring each director-nominee to submit a resignation letter if he or she does not receive a majority of the votes cast. See page 16 for more on this policy.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH OF THE NOMINEES FOR DIRECTOR.

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INFORMATION CONCERNING NOMINEES, DIRECTORS AND EXECUTIVE OFFICERS

Nominees	
H. Ray Compton Private investor; corporate director Member of the Nominating and Corporate Governance Committee; Member of the Compensation Committee Class III director	Mr. Compton, age 67, has been a director since 1986. Mr. Compton was Executive Vice President from 1998 to 2002 and Chief Financial Officer from 1986 to 1998. He retired as a full-time employee in 2002 and became fully retired in 2004. From 1979 until 1991, he was employed in similar roles with K&K Toys, Inc. Prior to 1979, he was associated for 15 years with a manufacturing company in various accounting and management positions. Having served as a director for almost twenty-five years and a former Chief Financial Officer, Mr. Compton brings to the Board a deep understanding of the company s history and unique business model. In addition, Mr. Compton s extensive experience in management, finance and accounting, coupled with his past service as Chairman of the Audit Committee for Hibbett Sports, Inc., is a vital asset to our Board. Mr. Compton has been a director of Dollar Tree since 1986. He previously served on the Board of Hibbett Sports, Inc. from 1997 to 2005.
Conrad M. Hall Private investor; corporate director Class III director	Mr. Hall, age 66, served as the President and Chief Executive Officer of Dominion Enterprises, a leading media and marketing information services company from 2006 until his retirement in January 2009. Prior to 2006, he served as the President and Chief Executive Officer of Trader Publishing Company since April 1991. From 1989 to 1991, he served as the President of Landmark Target Media, Inc. Mr. Hall joined Landmark Communications, Inc. in 1970 where he held various senior positions, including Executive Vice President and Chief Financial Officer from 1985 to 1989. He also served as the Vice President of The Virginian-Pilot and The Ledger-Star division of Landmark from 1977 to 1981. Mr. Hall s experience as a former Chief Executive Officer and his demonstrated success in new business development will be of immense value to the Board, especially as we continue to evaluate growth opportunities. He also brings to the Board thirty years of operational expertise, extensive experience in information technology, strategic planning, human resources, and a solid financial background.

Mr. Hall became a director of Dollar Tree in January 2010. He previously served as a director for Dominion Enterprises and Landmark Communications, Inc. from 2006 through 2009. He also served on the Board of Trader Publishing Company from 1991 through 2006.

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Lemuel E. Lewis Private investor; corporate director Member of the Audit Committee Class III director	Mr. Lewis, age 63, served as the Executive Vice President and Chief Financial Officer of Landmark Communications, Inc. from 2000 until his retirement in 2006. From 1981 to 2000, he held several other senior positions with Landmark Communications. He has been the Chairman of the Board for the Federal Reserve Bank of Richmond since 2008 and was the Chairman of its Audit Committee from 2005 to 2008. Mr. Lewis brings to the Board many years of experience in accounting, finance, human resources, mergers and acquisitions, and business unit operations. The Board also benefits from his valuable financial experience as a former Chief Financial Officer and his service on other Boards, including the Audit Committee of Markel Corporation. In addition, our Board has determined that Mr. Lewis qualifies as an Audit Committee financial expert. Mr. Lewis became a director of Dollar Tree in July 2007. He also serves on the Board of Markel Corporation. He previously served on the Board of Landmark Communications from 2006 through 2008.
Bob Sasser President and Chief Executive Officer Dollar Tree, Inc. Class III director	Mr. Sasser, age 58, has been Chief Executive Officer since 2004 and President since 2001. He had been Dollar Tree s Chief Operating Officer from 1999 to 2004. Previously, from 1997 to 1999, he served as Senior Vice President, Merchandise and Marketing of Roses Stores, Inc. From 1994 to 1996, he was Vice President, General Merchandise Manager for Michaels Stores, Inc. Prior to 1994, he held several positions at Roses Stores, Inc., ranging from Store Manager to Vice President, General Merchandise Manager. Mr. Sasser s demonstration of outstanding leadership skills, business acumen, commitment to excellence, and his major contributions to the company s growth and success as the Chief Executive Officer of Dollar Tree, provides essential insight and guidance to our Board. In addition, the Board benefits from Mr. Sasser s thirty-seven years of retail experience. Mr. Sasser was elected to our Board in 2004.

Other Directors

Arnold S. Barron Private Investor; corporate director	Mr. Barron, age 62, was the Senior Executive Vice President, Group President of The TJX Companies, Inc. from 2004 until his retirement in January 2009. His employment with The TJX Companies began in 1979. He held the positions of Executive Vice President, Chief Operating Officer, The Marmaxx Group

Member of the Compensation Committee	(2000-2004), Senior Vice President, Group Executive, TJX (1996-2000), Senior Vice President, General Merchandising Manager, T.J. Maxx (1993-1996). From 1979 to 1993, he held several other executive positions within The TJX Companies, Inc.
Class II director	With more than thirty years of experience in senior management, operations and retail merchandising, Mr. Barron brings a tremendous combination of skills and experience spanning areas key to our business.
	Mr. Barron became a director of Dollar Tree in March 2008. He also serves on the Board of rue21, inc.

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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.

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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.

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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.

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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%.

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.

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.

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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*	*Common Shares 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)		(3,056)
Defined benefit plan adjustment[1]	(194,149)				(194,149)		
Derivative financial instruments[1]	(11,600)				(11,600)		
Other comprehensive loss	(350,361)				(347,305)		(3,056)
Dividends	(107,366)					(107,366)	
Adjustment upon adoption of Emerging Issues Task Force Issue No. 06-10	(1,459)					(1,459)	
Adjustment to apply measurement date provisions of FAS 158[1]	(351)					(351)	
Issuance of stock awards	9,977	332		9,977			
Shares repurchased	(843)	(31)		(843)			
Stock-based compensation	4,177			4,177			
December 31, 2008	$ 1,174,518	99,732	$ 7,175	$ 404,939	$ (454,679)	$ 1,205,540	$ 11,543
Net income	155,145					151,482	3,663
Other comprehensive loss:							
Translation gain	80,780				79,535		1,245
Defined benefit plan adjustment[1]	56,149				56,149		
Derivative financial instruments[1]	8,526				8,526		
Other comprehensive income	145,455				144,210		1,245

Dividends	(108,979)					(108,979)	
Dividends paid to noncontrolling interests	(2,202)						(2,202)
Issuance of stock awards	9,316	468		9,316			
Shares repurchased	(1,239)	(51)		(1,239)			
Stock-based compensation	8,616			8,616			
December 31, 2009	$ 1,380,630	100,149	$ 7,175	$ 421,632	$ (310,469)	$ 1,248,043	$ 14,249

[1] Net of tax

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

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n **CONSOLIDATED** STATEMENTS OF CASH FLOWS

Sonoco Products Company

(Dollars in thousands)

Years ended December 31	*2009*	*2008*	*2007*
Cash Flows from Operating Activities			
Net income	**$ 155,145**	$ 157,258	$ 212,026
Adjustments to reconcile net income to net cash provided by operating activities			
Financial asset impairment		42,651	
Restructuring-related asset impairment and pension curtailment	**12,197**	28,995	16,684
Depreciation, depletion and amortization	**173,587**	183,034	181,339
Share-based compensation expense	**8,616**	4,177	11,000
Equity in earnings of affiliates	**(7,743)**	(9,680)	(11,586)
Cash dividends from affiliated companies	**5,563**	7,632	8,435
Gain on disposition of assets	**(14,731)**	(2,476)	(838)
Pension and postretirement plan expense	**81,380**	30,756	38,918
Pension and postretirement plan contributions	**(122,195)**	(20,492)	(11,647)
Tax effect of nonqualified stock options	**1,990**	811	9,538
Excess tax benefit of share-based compensation	**(1,030)**	(711)	(9,317)
Net increase (decrease) in deferred taxes	**21,689**	(18,844)	(31,940)
Change in assets and liabilities, net of effects from acquisitions, dispositions, and foreign currency adjustments			
Trade accounts receivable	**(16,057)**	58,627	19,458
Inventories	**36,492**	5,017	(9,259)
Payable to suppliers	**15,438**	(62,614)	39,202
Prepaid expenses	**7,393**	(7,721)	(1,304)
Accrued expenses	**22,233**	(23,659)	27,859
Income taxes payable and other income tax items	**8,811**	(1,041)	(26,258)
Fox River environmental reserves and insurance receivable	**(6,997)**	38,415	25,150
Other assets and liabilities	**9,207**	(30,741)	(42,324)
Net cash provided by operating activities	**390,988**	379,394	445,136
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	**(104,150)**	(123,114)	(169,444)
Cost of acquisitions, net of cash acquired	**(5,504)**	(5,535)	(236,263)
Proceeds from the sale of assets	**19,909**	19,758	23,417
Net (increase) decrease in investment in affiliates and other	**(1,765)**	(1,293)	2,652
Net cash used by investing activities	**(91,510)**	(110,184)	(379,638)
Cash Flows from Financing Activities			
Proceeds from issuance of debt	**24,103**	39,102	39,041
Principal repayment of debt	**(45,256)**	(118,115)	(40,364)
Net (decrease) increase in commercial paper borrowings	**(95,000)**	(74,000)	80,000
Net (decrease) increase in outstanding checks	**(2,568)**	11,855	(798)
Cash dividends common	**(107,887)**	(106,558)	(102,658)
Excess tax benefit of share-based compensation	**1,030**	711	9,317
Shares acquired	**(1,239)**	(843)	(109,206)
Common shares issued	**7,159**	6,470	49,698
Net cash used by financing activities	**(219,658)**	(241,378)	(74,970)
Effects of Exchange Rate Changes on Cash	**3,770**	3,065	(6,268)
Increase (Decrease) in Cash and Cash Equivalents	**83,590**	30,897	(15,740)
Cash and cash equivalents at beginning of year	**101,655**	70,758	86,498

Cash and cash equivalents at end of year	**$ 185,245**	$ 101,655	$ 70,758
Supplemental Cash Flow Disclosures			
Interest paid, net of amounts capitalized	**$ 34,731**	$ 43,474	$ 50,401
Income taxes paid, net of refunds	**$ 34,328**	$ 73,872	$ 103,846

Prior year s data have been reclassified to conform to the current year s presentation.

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

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n NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Sonoco Products Company (dollars in thousands except per share data)

The following notes are an integral part of the Consolidated Financial Statements. The accounting principles followed by the Company appear in bold type.

1. BASIS OF PRESENTATION

The Consolidated Financial Statements include the accounts of Sonoco Products Company and its majority-owned subsidiaries (the Company or Sonoco) after elimination of intercompany accounts and transactions. Investments in affiliated companies in which the Company shares control over the financial and operating decisions, but in which the Company is not the primary beneficiary, are accounted for by the equity method of accounting. Income applicable to these equity investments is reflected in Equity in earnings of affiliates, net of tax in the Consolidated Statements of Income. The aggregate carrying value of equity investments is reported in Other Assets in the Company s Consolidated Balance Sheets and totaled $99,940 and $89,856 at December 31, 2009 and 2008, respectively.

Affiliated companies in which the Company held a significant investment at December 31, 2009, included:

Entity	*Ownership Interest Percentage at December 31, 2009*
RTS Packaging JVCO	35.0%
Cascades Conversion, Inc.	50.0%
Cascades Sonoco, Inc.	50.0%
Showa Products Company Ltd.	20.0%
Conitex Sonoco Holding BVI Ltd.	30.0%

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In accordance with U.S. GAAP, the Company records revenue when title and risk of ownership pass to the customer, and when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price to the customer is fixed or determinable and when collectibility is reasonably assured. Certain judgments, such as provisions for estimates of sales returns and allowances, are required in the application of the Company s revenue policy and, therefore, the results of operations in its Consolidated Financial Statements. Shipping and handling expenses are included in Cost of sales, and freight charged to customers is included in Net sales in the Company s Consolidated Statements of Income.

The Company s trade accounts receivable are non-interest bearing and are recorded at the invoiced amounts. The allowance for doubtful accounts represents the Company s best estimate of the amount of probable credit losses in existing accounts receivable. Provisions are made to the allowance for doubtful accounts at such time that collection of all or part of a trade account receivable is in question. The allowance for doubtful accounts is monitored on a regular basis and adjustments are made as needed to ensure that the account properly reflects the Company s best estimate of uncollectible trade accounts receivable. Trade accounts receivable balances that are more than 180 days past due are generally 100% provided for in the allowance for doubtful accounts. Account balances are charged off against the allowance for doubtful accounts when the Company determines that the receivable will not be recovered. One of the Company s customers represented approximately 11% and 12% of the consolidated trade accounts receivable at December 31, 2009 and 2008, respectively. Sales to this customer accounted for approximately 12% of the Company s consolidated revenues in 2009, 2008 and 2007, and were primarily reported in the Consumer Packaging and Packaging Services segments. No other single customer comprised more than 5% of the Company s consolidated revenues in 2009, 2008 or 2007.

The Company identifies its reportable segments based on the level of detail reviewed by the chief operating decision maker, gross profit margins, nature of products sold, nature of the production processes, type and class of customer, methods used to distribute products and nature of the regulatory environment. Of these factors, the Company believes that the most significant are the nature of its products and the type of customers served.

Research and development costs are charged to expense as incurred and include salaries and other directly related expenses. Research and development costs totaling $12,387 in 2009, $15,888 in 2008 and $15,614 in 2007, are included in Selling, general and administrative expenses in the Company s Consolidated Statements of Income.

2. ACQUISITIONS

The Company completed one acquisition during 2009 at an aggregate cost of $5,004 in cash plus contingent consideration estimated at $2,208. This acquisition consisted of the injection molded plastics spools and reels assets and business of EconoReel Corporation of Logan, Utah, and additional manufacturing assets of Southern Reel, a subsidiary of EconoReel. The acquisition of this business is expected to generate annual sales of approximately $7,000 and will be included in All Other Sonoco. In conjunction with this acquisition, the Company recorded identifiable intangibles of $3,250, goodwill of $2,504, tangible assets of $1,458, and the contingent purchase liability of $2,208. Also in 2009, the Company recorded $500 of additional goodwill related to the payment of contingent consideration on its 2008 acquisition of Amtex Packaging, Inc.

The Company completed two acquisitions during 2008 at an aggregate cost of $5,535 in cash. These acquisitions consisted of Amtex Packaging, Inc., a packaging fulfillment company included in the Packaging Services segment, and VoidForm International Ltd., a Canada-based construction tube business included in the Tubes and Cores/Paper segment. The acquisition of these businesses is expected to generate annual sales of approximately $6,000. In conjunction with these acquisitions, the Company recorded identifiable intangibles of $4,890, goodwill of $179, and other net tangible assets of $466.

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The Company completed four acquisitions during 2007, and purchased the remaining 51.1% interest of its AT-Spiral Oy joint venture, a European manufacturer of tubes and cores, at an aggregate cost of $236,263, all of which was paid in cash. In connection with these acquisitions, the Company recorded fair value of identified intangibles totaling $49,565, goodwill of $126,856 (none of which is expected to be tax deductible) and other net tangible assets of $59,842. Acquisitions in the Consumer Packaging segment included Matrix Packaging, Inc., a manufacturer of custom-designed blow molded rigid plastic containers and injection molded products with operations in the United States and Canada, and the fiber and plastic container business of Caraustar Industries, Inc. in the United States. Additional acquisitions in 2007 consisted of a small tube and core business in Mexico, which is included in the Tubes and Cores/Paper segment, and a small protective packaging business in the United States, which is included in All Other Sonoco.

The Company has accounted for these acquisitions as purchases and, accordingly, has included their results of operations in 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.

3. RESTRUCTURING AND ASSET IMPAIRMENT

The Company accounts for costs associated with exit or disposal activities under U.S. GAAP, whereby exit costs are recognized when the liability is incurred. If assets become impaired as a result of a restructuring action, the assets are written down to fair value, less estimated costs to sell, if applicable. A number of significant estimates and assumptions are involved in the determination of fair value. The Company considers historical experience and all available information at the time the estimates are made; however, the amounts that are ultimately realized upon the sale of divested assets may differ from the estimated fair values reflected in the Company s Consolidated Financial Statements.

The Company has engaged in a number of restructuring actions over the past several years. Actions initiated in 2009, 2008 and 2007 are reported as 2009 Actions, 2008 Actions and 2007 Actions, respectively. The Company has two formal restructuring plans that are still active, although both were substantially complete at December 31, 2009. These are reported as Earlier Actions. Following are the total restructuring and asset impairment charges, net of adjustments, recognized by the Company during the periods presented:

	Year Ended December 31		
	2009	*2008*	*2007*
Restructuring/Asset impairment:			
2009 Actions	**$ 28,629**	$	$
2008 Actions	**8,218**	38,235	
2007 Actions	**(10,739)**	15,807	19,638
Earlier Actions	**693**	3,368	16,553
Financial Asset Impairment		42,651	
Restructuring/Asset impairment 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

Restructuring and asset impairment charges are included in Restructuring/Asset impairment charges in the Consolidated Statements of Income, except for restructuring and asset impairment charges related to equity method investments, which are included in Equity in earnings of affiliates, net of tax.

The Company expects to recognize future additional costs totaling approximately $5,100 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. The Company continually evaluates its cost structure, including its manufacturing capacity, and additional restructuring actions may be undertaken.

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2009 Actions

During 2009, the Company initiated closures in its Tubes and Cores/Paper segment including a paper mill in the United States and five tube and core plants three in the United States, one in Europe, and one in Canada. The Company also initiated the closures of two rigid paper packaging plants in the United States (part of the Consumer Packaging segment), a fulfillment service center in Germany (part of the Packaging Services segment), a molded plastics facility in the United States (part of All Other Sonoco) and a wooden reel facility in the United States (part of All Other Sonoco). Also during 2009, the Company sold a small Canadian recovered paper brokerage business. Net sales associated with this business were approximately $7,000 through the date of the sale. In addition to the plant closures, the Company has continued to realign its fixed cost structure resulting in the elimination of approximately 225 positions in 2009.

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

2009 Actions	*Total Incurred to Date*	*Estimated Total Cost*
Severance and Termination Benefits		
Tubes and Cores/Paper segment	$ 13,525	$ 13,875
Consumer Packaging segment	2,045	2,295
Packaging Services segment	1,432	1,432
All Other Sonoco	1,238	1,238
Corporate	665	665
Asset Impairment/Disposal of Assets		
Tubes and Cores/Paper segment	6,383	6,383
Consumer Packaging segment	556	556
Packaging Services segment	7	7
All Other Sonoco	303	303
Other Costs		
Tubes and Cores/Paper segment	1,916	3,971
Consumer Packaging segment	79	1,054
Packaging Services segment	145	195
All Other Sonoco	335	370
Total Charges and Adjustments	$ 28,629	$ 32,344

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

2009 Actions Accrual Activity	*Severance and Termination Benefits*	*Asset Impairment/ Disposal of Assets*	*Other Costs*	*Total*
Liability, December 31, 2008	$	$	$	$
2009 charges	19,180	8,025	2,475	29,680
Adjustments	(275)	(776)		(1,051)
Cash receipts/(payments)	(10,227)	2,775	(2,467)	(9,919)

Asset write downs/disposals		(10,024)		(10,024)
Foreign currency translation	147		3	150
Liability, December 31, 2009	$ 8,825	$	$ 11	$ 8,836

Proceeds of $2,775 were received from the disposal of a Canadian recovered paper brokerage business. The net book value of property, plant and equipment written off against the sales proceeds totaled $125. Also written off was associated goodwill totaling $1,643. The resulting gain of $1,007 is included under 2009 charges in the table above.

The Company expects to pay the majority of the remaining 2009 Actions restructuring costs by the end of 2010 using cash generated from operations.

2008 Actions

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

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

	Year Ended December 31,			*Estimated*
2008 Actions	*2009*	*2008*	*Total Incurred to Date*	*Total Cost*
Severance and Termination Benefits				
Tubes and Cores/Paper segment	**$ 3,036**	$ 8,221	$ 11,257	$ 11,407
Consumer Packaging segment	**(375)**	4,102	3,727	3,727
Packaging Services segment	**87**	1,368	1,455	1,455
All Other Sonoco		563	563	563
Corporate	**106**	1,734	1,840	1,840
Asset Impairment/Disposal of Assets				
Tubes and Cores/Paper segment	**57**	10,949	11,006	11,006
Consumer Packaging segment	**126**	4,706	4,832	4,832
Packaging Services segment	**(365)**	365		
Other Costs				
Tubes and Cores/Paper segment	**4,606**	5,245	9,851	10,886
Consumer Packaging segment	**925**	974	1,899	1,899
Corporate	**15**	8	23	23
Total Charges and Adjustments	**$ 8,218**	$ 38,235	$ 46,453	$ 47,638

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

2008 Actions Accrual Activity	*Severance and Termination Benefits*	*Asset Impairment/ Disposal of Assets*	*Other Costs*	*Total*
Liability, December 31, 2007	$	$	$	$
2008 charges	15,988	16,020	6,227	38,235
Cash receipts/(payments)	(3,992)	219	(1,943)	(5,716)
Asset write downs/disposals		(16,239)		(16,239)
Foreign currency translation	(103)			(103)
Pension curtailment/settlement			(3,927)	(3,927)
Liability, December 31, 2008	$ 11,893	$	$ 357	$ 12,250
2009 charges	3,226	792	5,649	9,667
Adjustments	(372)	(974)	(103)	(1,449)
Cash receipts/(payments)	(12,692)	1,149	(4,242)	(15,785)
Asset write downs/disposals		(967)		(967)
Foreign currency translation	185		(6)	179
Pension curtailment/settlement			(941)	(941)
Liability, December 31, 2009	$ 2,240	$	$ 714	$ 2,954

Other Costs in the Tubes and Cores/Paper segment include settlement charges of $941 related to a defined benefit pension plan maintained for the hourly union employees of the Canadian paper mill. During 2009, the Company received proceeds of $1,149 from the sale of a building at a tube and core operation in Canada. The resulting gain of $974 is shown under Adjustments in the table above.

During the years ended December 31, 2009 and 2008, the Company also recorded noncash, after-tax offsets in the amounts of $18 and $1,131, respectively, to reflect a minority interest holder s portion of restructuring costs that were charged to expense.

The Company expects to pay the majority of the remaining Other 2008 Actions restructuring costs by the end of 2010 using cash generated from operations.

Other 2007 Actions

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

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

2007 Actions	*Year Ended December 31,* 2009	2008	2007	*Total Incurred to Date*	*Estimated Total Cost*
Severance and Termination Benefits					
Tubes and Cores/Paper segment	**$ 510**	$ 6,908	$ 1,148	$ 8,566	$ 8,566
Consumer Packaging segment		653	874	1,527	1,527
Packaging Services segment	**(7)**	270	134	397	397
All Other Sonoco			36	36	36
Asset Impairment/Disposal of Assets					
Tubes and Cores/Paper segment	**(11,682)**	(845)		(12,527)	(12,527)
Consumer Packaging segment	**24**	5,181	16,348	21,553	21,553
All Other Sonoco		(61)	597	536	536
Other Costs					
Tubes and Cores/Paper segment	**291**	604		895	995
Consumer Packaging segment	**125**	3,097	273	3,495	3,495
All Other Sonoco			228	228	228
Total Charges and Adjustments	**$ (10,739)**	$ 15,807	$ 19,638	$ 24,706	$ 24,806

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

2007 Actions Accrual Activity	*Severance and Termination Benefits*	*Asset Impairment/ Disposal of Assets*	*Other Costs*	*Total*
Liability, December 31, 2007	$ 1,165	$	$ 230	$ 1,395
2008 charges	7,974	10,067	3,704	21,745
Adjustments	(143)	(5,792)	(3)	(5,938)
Cash receipts/(payments)	(7,513)	14,671	(3,920)	3,238
Asset write downs/disposals		(18,946)		(18,946)
Foreign currency translation	262		(11)	251
Liability, December 31, 2008	$ 1,745	$	$	$ 1,745
2009 charges	510	24	416	950
Adjustments	(7)	(11,682)		(11,689)
Cash receipts/(payments)	(2,196)	11,682	(416)	9,070
Asset write downs/disposals		(24)		(24)
Foreign currency translation	(7)			(7)
Liability, December 31, 2009	$ 45	$	$	$ 45

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

During the years ended December 31, 2009, 2008 and 2007, the Company also recorded non-cash, after-tax offsets in the amounts of $(3,805), $2,971, and $64, respectively, to reflect the impact of the noncontrolling interest holder s portion of the sale of the paper mill in China.

The Company expects to pay the majority of the remaining Other 2007 Actions restructuring costs during 2010 using cash generated from operations.

Earlier Actions

Earlier Actions are comprised of two formal restructuring plans, the 2006 Plan and the 2003 Plan, both of which included a number of plant closures and workforce reductions. At December 31, 2009, the remaining restructuring accrual for Earlier Actions was $644. The accrual, included in Accrued expenses and other on the Company s Consolidated Balance Sheet, relates primarily to building lease terminations and unpaid severance and termination benefits. The Company expects to recognize future pre-tax charges of approximately $100 associated with Earlier Actions, primarily related to building lease terminations and costs of exiting two closed facilities in Europe. The Company expects both the liability and the future costs to be fully paid by the end of 2012 using cash generated from operations.

Financial Asset Impairment

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

4. CASH AND CASH EQUIVALENTS

Cash equivalents are composed of highly liquid investments with an original maturity of three months or less. Cash equivalents are recorded at cost, which approximates market. At December 31, 2009 and 2008, outstanding checks totaling $21,069 and $23,781, respectively, were included in Payable to suppliers on the Company s Consolidated Balance Sheets. In addition, outstanding payroll checks of $1,372 and $1,229 as of December 31, 2009 and 2008, respectively, were included in Accrued wages and other compensation on the Company s Consolidated Balance Sheets.

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 cash deposit or borrowing positions 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. The Company s Consolidated Balance Sheets reflect a net cash deposit under this pooling arrangement of $7,061 and $1,753 as of December 31, 2009 and 2008, respectively.

5. INVENTORIES

Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) method is used for the valuation of certain of the Company s domestic inventories, primarily metal, internally manufactured paper and paper purchased from third parties. The LIFO method of accounting was used to determine the costs of approximately 23% and 23% of total inventories at December 31, 2009 and 2008, respectively. The remaining inventories are determined on the first-in, first-out (FIFO) method.

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If the FIFO method of accounting had been used for all inventories, total inventory would have been higher by $19,155 and $17,667 at December 31, 2009 and 2008, respectively.

6. PROPERTY, PLANT AND EQUIPMENT

Plant assets represent the original cost of land, buildings and equipment, less depreciation, computed under the straight-line method over the estimated useful lives of the assets, and are reviewed for impairment whenever events indicate the carrying value may not be recoverable.

Equipment lives generally range from three to 11 years, and buildings from 15 to 40 years.

Timber resources are stated at cost. Depletion is charged to operations based on the estimated number of units of timber cut during the year.

Details at December 31 are as follows:

	2009	*2008*
Land	**$ 74,281**	$ 74,254
Timber resources	**39,348**	39,274
Buildings	**429,360**	420,642
Machinery and equipment	**2,343,117**	2,210,659
Construction in progress	**54,221**	62,913
	2,940,327	2,807,742
Accumulated depreciation and depletion	**(2,013,498)**	(1,834,300)
Property, plant and equipment, net	**$ 926,829**	$ 973,442

Estimated costs for completion of capital additions under construction totaled approximately $58,000 at December 31, 2009.

Depreciation and depletion expense amounted to $161,180 in 2009, $170,032 in 2008 and $170,013 in 2007.

The Company has certain properties and equipment that are leased under noncancelable operating leases. Future minimum rentals under noncancelable operating leases with terms of more than one year are as follows: 2010 $33,200; 2011 $24,500; 2012 $20,300; 2013 $13,300; 2014 $8,400 and thereafter $16,000. Total rental expense under operating leases was approximately $50,100 in 2009, $52,900 in 2008 and $46,800 in 2007.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The Company accounts for goodwill in accordance with U.S. GAAP under which purchased goodwill and intangible assets with indefinite lives are not amortized. The Company evaluates its goodwill for impairment at least annually, and more frequently if indicators of impairment are present. In performing the impairment test, the Company uses discounted future cash flows to estimate the fair value of each reporting unit giving consideration to multiples it believes could be obtained in a sale. If the fair value of the reporting unit exceeds the carrying value of the reporting unit s assets, including goodwill, there is no impairment. Otherwise, if the carrying value of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment charge is recognized for the excess.

The Company completed its annual goodwill impairment testing during the third quarters of 2009, 2008 and 2007. Based on the results of these evaluations, 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. For 2009, these projections reflected management s expectations for a gradual recovery in the overall economy beginning in 2010 as well as improved results from ongoing growth opportunities and initiatives. Should the improved operating results reflected in these projections not materialize, future goodwill impairment charges may be required. Reporting units with significant goodwill whose results need to show improvement from current levels, beyond that expected from a recovery in the general economy, in order to assure that there will not be a future impairment include Tubes & Cores/Paper Europe, Matrix Packaging, and Molded Plastics. The estimated fair values of these reporting units exceeded their carrying values by approximately $58,000, or 25%, for Matrix Packaging, approximately $12,000, or 14% for Molded Plastics, and approximately $81,000, or 28%, for Tubes and 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. The Company expects operating results in all of these units to improve as general economic conditions improve and has implemented certain restructuring actions that are expected to bolster future cash flows. In addition, results in Matrix Packaging are projected to grow at levels beyond that expected from a recovery in the general economy.

During the fourth quarter of 2009, the Global Services unit participated in a bidding process conducted by its largest customer. The outcome of this bidding activity was unfavorable to the Company as a significant portion of the customer s sales volume will be lost. In response, the Company reevaluated the goodwill of this reporting unit and determined it was not impaired. The Company s reevaluation took into account this loss of the business, and concluded that the impact would be largely offset by projected growth with other customers.

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.

If the Company s assessment of the relevant facts and circumstances changes, if economic conditions fail to improve, or if actual performance in any of these reporting units falls short of expected results, noncash impairment charges may be required. Total goodwill associated with Global Services, Matrix Packaging, Tubes & Cores/Paper Europe, Molded Plastics, and Rigid Paper Containers Australia was approximately $150,100, $127,600, $108,900, $41,900, and $5,400 respectively at December 31, 2009.

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The changes in the carrying amount of goodwill for the year ended December 31, 2009, are as follows:

	Tubes and Cores /Paper Segment	*Consumer Packaging Segment*	*Packaging Services Segment*	*All Other Sonoco*	*Total*
Balance as of January 1, 2009	$ 229,239	$ 337,922	$ 149,582	$ 66,240	$ 782,983
Goodwill on acquisitions			500	2,504	3,004
Dispositions	(1,643)				(1,643)
Foreign currency translation	9,279	19,876		31	29,186
Balance as of December 31, 2009	$ 236,875	$ 357,798	$ 150,082	$ 68,775	$ 813,530

The Company recorded $3,004 of goodwill in 2009. Of this total, $2,504 was in connection with the acquisition of the injection molded plastic spools and reels business of EconoReel Corporation. The remaining $500 was related to the payment of contingent consideration on the prior year acquisition of Amtex Packaging, Inc. In addition, the Company disposed of $1,643 of goodwill associated with the sale of a recovered paper brokerage business in Canada.

Other Intangible Assets

Intangible assets are amortized, usually on a straight-line basis, over their respective useful lives, which generally range from three to 20 years. The Company evaluates its intangible assets for impairment whenever indicators of impairment exist. The Company has no intangibles with indefinite lives.

	2009	*2008*
Other Intangible Assets, Gross:		
Patents	**$ 2,592**	$ 3,559
Customer lists	**161,007**	156,883
Land use rights	**340**	316
Supply agreements	**1,000**	1,000
Other	**7,830**	12,047
Total Other Intangible Assets, Gross	**$ 172,769**	$ 173,805
Total accumulated amortization	**$ (57,725)**	$ (53,265)
Other Intangible Assets, Net	**$ 115,044**	$ 120,540

The Company recorded $3,250 of identifiable intangibles in connection with the 2009 purchase of the injection molded plastic spools and reels business of EconoReel Corporation. Of this total, $1,900 related to patents that will be amortized over 12 years, $1,200 related to customer lists that will be amortized over 12 years with the remaining $150 consisting of a non-compete agreement that will be amortized over 5 years. During 2009, the Company wrote off patents and other intangible assets with a gross cost of approximately $8,600. These intangible assets, which were fully amortized, had no legal or economic life remaining.

Aggregate amortization expense on intangible assets was $12,407, $13,002 and $11,326 for the years ended December 31, 2009, 2008 and 2007, respectively. Amortization expense on intangible assets is expected to approximate $12,200 in 2010, $11,900 in 2011, $11,400 in 2012, $11,200 in 2013 and $10,900 in 2014.

8. DEBT

Debt at December 31 was as follows:

	2009	*2008*
Commercial paper, average rate of 0.67% in 2009 and 3.13% in 2008	**$ 0**	$ 95,000
6.75% debentures due November 2010	**99,986**	99,954
6.5% debentures due November 2013	**248,984**	249,439
5.625% debentures due November 2016	**149,537**	149,465
9.2% debentures due August 2021	**41,305**	41,305
Foreign denominated debt, average rate of 9.4% in 2009 and 6.5% in 2008	**27,229**	43,284
Other notes	**13,755**	11,378
Total debt	**580,796**	689,825
Less current portion and short-term notes	**118,053**	32,978
Long-term debt	**$ 462,743**	$ 656,847

The Company operates a $500,000 commercial paper program that provides a flexible source of domestic liquidity. The program is supported by a 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 that 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 LIBOR. Outstanding commercial paper is typically classified as long-term debt.

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 subject to the rule at December 31, 2009 and 2008 were $40,000 and $72,000, 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.

In addition, at December 31, 2009, the Company had approximately $202,000 available under unused short-term lines of credit. These short-term lines of credit are for general Company purposes, with interest at mutually agreed-upon rates.

Certain of the Company s debt agreements impose restrictions with respect to the maintenance of financial ratios and the disposition of assets. The most restrictive covenant currently requires the Company to maintain a minimum level of net worth, as defined. As of December 31, 2009, the Company s defined net worth was approximately $439,000 above the minimum level required under this covenant.

The principal requirements of debt maturing in the next five years are: 2010 $118,053; 2011 $1,989; 2012 $12,394; 2013 $250,787 and 2014 $1,743.

9. FINANCIAL INSTRUMENTS AND DERIVATIVES

The following table sets forth the carrying amounts and fair values of the Company s significant financial instruments where the carrying amount differs from the fair value.

	December 31, 2009		*December 31, 2008*	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*
Long-term debt	**$ 462,743**	**$ 473,573**	$ 656,847	$ 599,748

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

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

The Company uses derivatives to mitigate the effect of fluctuations in some of its raw material and energy costs, foreign currency fluctuations and interest rate movements. The Company purchases commodities such as recovered paper, metal and energy generally at market or at fixed prices that are established with the vendor as part of the purchase process for quantities expected to be consumed in the ordinary course of business. The Company may enter into commodity futures or swaps to reduce the effect of price fluctuations. The Company may use foreign currency forward contracts and other risk management instruments to manage exposure to changes in foreign currency cash flows and the translation of monetary assets and liabilities on the Company s consolidated 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 adjust its mix of fixed and variable rate debt to manage its exposure to interest rate movements.

Cash Flow Hedges

At December 31, 2009 and 2008, the Company had derivative financial instruments outstanding to hedge anticipated transactions and certain asset and liability related cash flows. To the extent considered effective, the changes in fair value of these contracts are recorded in other comprehensive income and reclassified to income or expense in the period in which the hedged item impacts earnings.

Commodity Cash Flow Hedges

The Company has entered into certain derivative contracts to manage the cost of anticipated purchases of natural gas and aluminum. At December 31, 2009, natural gas swaps covering approximately 5.8 million MMBTUs were outstanding. These contracts represent approximately 75%, 37% and 16% of anticipated U.S. and Canadian usage for 2010, 2011 and 2012 respectively. Additionally, the Company had swap contracts covering 3,765 metric tons of aluminum representing approximately 27% of anticipated usage for 2010. The fair values of the Company s commodity cash flow hedges were in loss positions totaling $8,294 and $20,491 at December 31, 2009 and 2008, respectively.

Foreign Currency Cash Flow Hedges

The Company has entered into forward contracts to hedge certain anticipated foreign currency denominated sales and purchases forecasted to occur in 2010. At December 31, 2009, the net position of these contracts was to purchase approximately 56.6 million Canadian dollars, 1.7 million British pounds, and 170.5 million Mexican pesos and to sell approximately 5.6 million Australian dollars, 3.0 million New Zealand dollars, and 3.4 million euros. The fair value of these foreign currency cash flow hedges was $721 at December 31, 2009. The fair value of foreign currency cash flow hedges at December 31, 2008 was $(666).

Fair Value Hedges

During the third quarter, the Company entered into an interest rate derivative to swap $150,000 notional value of its 6.5% debentures due November 2013 to a floating rate. The effect of this fair value hedge was a decrease of the carrying value of the related bonds of $572 at December 31, 2009. The fair value of this hedge was a net liability of $(647) at December 31, 2009. The Company had no fair value hedges at December 31, 2008.

Other Derivatives

The Company routinely enters into forward contracts or swaps to economically hedge the currency exposure of intercompany debt and existing foreign currency denominated receivables and payables. The Company does not apply hedge accounting treatment under FAS 133 for these instruments. As such, changes in fair value are recorded directly to income and expense in the periods that they occur. At December 31, 2009, the net position of these contracts, all of which were short term, was to sell approximately 39.5 million Canadian dollars and purchase 0.5 million British Pounds and 9.8 billion Colombian Pesos. The fair value of these derivatives was $795 at December 31, 2009. At December 31, 2008 the fair value of such derivatives was $6,264.

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The following table sets forth the location and fair values of the Company s derivative instruments at December 31, 2009:

Description	*Balance Sheet Location*	*Fair Value*
Derivatives designated as hedging instruments:		
Commodity Contracts	Other Current Assets	$ 2,080
Commodity Contracts	Other Current Liabilities	$ 6,940
Commodity Contracts	Other Long Term Liabilities	$ 3,434
Foreign Exchange Contracts	Other Current Assets	$ 792
Foreign Exchange Contracts	Other Current Liabilities	$ 71
Derivatives designated as fair value hedges:		
Interest Rate Swap Contracts	Other Long Term Liabilities	$ 647
Derivatives not designated as hedging instruments:		
Foreign Exchange Contracts	Other Current Assets	$ 816
Foreign Exchange Contracts	Other Current Liabilities	$ 21

The following table sets forth the effect of the Company s derivative instruments on financial performance for the twelve months ended December 31, 2009:

Description	*Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)*	*Location of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)*	*Amount of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)*	*Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)*	*Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)*
Derivatives in Cash Flow Hedging Relationships:					
Foreign Exchange Contracts	$ 3,538	Net sales	$ 5,201	Net sales	$
		Cost of sales	$ (3,297)	Cost of sales	$
Commodity Contracts	$ (13,679)	Cost of sales	$ (25,462)	Cost of sales	$ 328
Fair value hedge derivatives:					
Interest Rate Swap				Interest expense	$ (75)

	Location of Gain or (Loss) Recognized in Income Statement	*Gain or (Loss) Recognized*
Derivatives not designated as hedging instruments:		
Foreign Exchange Contracts	Cost of sales	$ 541
	Selling, general and administrative	$ 717

10: Fair Value Measurements

The Financial Accounting Standards Board issued new requirements concerning employers disclosures about postretirement benefit plan assets in December 2008. The applicable provisions of the new disclosure requirements were effective for companies with fiscal year s ending after December 15, 2009, and as such the required disclosures are presented below.

The following tables set forth information regarding the Company s financial assets and financial liabilities that are measured at fair value at December 31, 2009 and 2008. The Company does not currently have any nonfinancial assets or liabilities that are recognized or disclosed at fair value on a recurring basis.

		Fair Value Measurements at Reporting Date Using		
Description	*December 31, 2009*	*Quoted Market Prices in Active Market for Identical Assets/Liabilities (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Assets:				
Derivatives	$ 3,787	$	$ 3,787	$
Deferred Compensation Plan Assets	1,998	1,998		
Postretirement Benefit Plan Assets:				
Mutual Funds [a]	746,569		746,569	
Common Stocks	103,761	103,761		
Short-Term Investments [b]	78,324		78,324	
Hedge Fund of Funds [c]	37,270			37,270
Real Estate [d]	32,624			32,624
Cash Surrender Value of Life Insurance Policies, net of loans	5,685			5,685
Cash and Accrued Income	1,968	1,968		
Guaranteed Investment Contracts	68			68
Forward Contracts	(6)		(6)	
Total Postretirement Benefit Plan Assets	$ 1,006,263	$ 105,729	$ 824,887	$ 75,647
Liabilities:				
Derivatives	$ 11,113	$	$ 11,113	$

a Mutual fund investments are comprised predominantly of equity securities of U.S. corporations with large capitalizations. This category also includes funds invested in Corporate equities in international and emerging markets and funds invested in long-term domestic bonds.

b This category includes several money market funds used for managing overall liquidity.

c This category includes investments in a number of funds representing a variety of strategies intended to diversify risks and reduce volatility. It includes event-driven credit and equity investments targeted at economic policy decisions, long and short positions in U.S. and international equities, arbitrage investments, and emerging market equity investments.

d This category includes funds invested in real estate (including office, industrial, residential, and retail) primarily throughout the United States.

The Company s pension plan assets comprise more than 98% of its total postretirement benefit plan assets. The assets of the Company s various pension plans and retiree health and life insurance plans are largely invested in the same funds and investments and in similar proportions and, as such, are not shown separately, but are combined in the table above. Postretirement benefit plan assets are netted against postretirement benefit obligations to determine the funded status of each plan. The funded status is recognized in the Company s Consolidated Balance Sheets as shown in Note 12.

		Fair Value Measurements at Reporting Date Using		
Description	*December 31, 2008*	*Quoted Market Prices in Active Market for Identical Assets/Liabilities (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Assets:				
Derivatives	$ 6,628	$	$ 6,628	$
Deferred Compensation Plan Assets	1,648	1,648		
Liabilities:				
Derivatives	$ 21,208	$	$ 21,208	$

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The following table sets forth information summarizing the changes in fair value of the Company s Level 3 assets for the year ended December 31, 2009. All of these assets were held in the Company s postretirement benefit plans. The Company s Level 3 postretirement benefit plan assets at December 31, 2008 did not require disclosure.

	Dec. 31, 2008	Purchases	Sales	Gain/(Loss) on Assets Sold	Gain/(Loss) on Assets Held	Foreign Currency Translation	Dec. 31, 2009
Level 3 Assets:							
Hedge Fund of Funds	$ 36,314	$ 35,605	$ (35,605)	$ (709)	$ 1,665	$	$ 37,270
Real Estate	44,056	319	(416)	155	(11,890)	400	32,624
Cash Surrender Value of Life Insurance Policies, net of loans	5,348				337		5,685
Guaranteed Investment Contracts	74	3	(9)				68
Total Level 3 Assets	$ 85,792	$ 35,927	$ (36,030)	$ (554)	$ (9,888)	$ 400	$ 75,647

The fair value of Level 3 real estate investments is determined by the fund sponsor using independent appraisers to value the underlying properties on an annual basis (at a minimum). The property valuations and the key valuation-sensitive assumptions are reviewed by the fund sponsor and adjusted if there has been a significant change in circumstances related to the property since the last valuation. Fair value measurements of investments in the hedge fund of funds employ combinations of the market, income, and cost approach, depending upon the nature of the underlying investments. Level 3 assets comprise approximately 7.5% of the Company s total postretirement benefit plan assets and are utilized in order to provide an additional measure of diversification. They are not considered a critical part of the Company s overall investment strategy.

As discussed in Note 9, the Company uses derivatives to mitigate the effect of raw material and energy cost fluctuations, foreign currency fluctuations and interest rate movements. Fair value measurements for the Company s derivatives are classified under Level 2 because such measurements are determined using published market prices or estimated based on observable inputs such as interest rates, yield curves, spot and future commodity prices and spot and future exchange rates.

Certain deferred compensation plan liabilities are funded and the assets invested in various exchange traded mutual funds. These assets are measured using quoted prices in accessible active markets for identical assets.

11. STOCK-BASED COMPENSATION PLANS

The Company provides share-based compensation to certain of its employees and non-employee directors in the form of stock options, stock appreciation rights, restricted stock units and other share-based awards. Awards issued prior to 2009 were issued pursuant to the 1991 Key Employee Stock Plan (the 1991 Plan) or the 1996 Non-Employee Directors Stock Plan (the 1996 Plan). Awards issued after 2008 were issued pursuant to the Sonoco Products Company 2008 Long-Term Incentive Plan (the 2008 Plan), which became effective upon approval by the shareholders on April 16, 2008. The maximum number of shares of common stock that may be issued under the 2008 Plan was set at 8,500,000 shares, subject to certain adjustments, which includes all awards that were granted, forfeited or expired during 2008 under all previous plans. At December 31, 2009, a total of 5,914,617 shares remain available for future grant under the 2008 Plan. After the effective date of the 2008 Plan, no awards may be granted under any previous plan. The Company issues new shares for stock option and stock appreciation right exercises and stock unit conversions. Although the Company from time to time has repurchased shares to replace its authorized shares issued under its stock compensation plans, there is no specific schedule or policy to do so. The Company s stock-based awards to non-employee directors have not been material.

Accounting for Share-based Compensation

For stock appreciation rights granted to retiree-eligible employees, the service completion date is assumed to be the grant date; therefore, expense associated with share-based compensation to these employees is recognized at that time.

Total compensation cost for share-based payment arrangements was $8,616, $4,177 and $11,000, for 2009, 2008 and 2007, respectively. The related tax benefit recognized in net income was $3,254, $1,550 and $3,908, for the same years, respectively. Share-based compensation expense is included in Selling, general and administrative expenses in the Consolidated Statements of Income.

An excess tax benefit is created when the tax deduction for an exercised stock option, exercised stock appreciation right or converted stock unit exceeds the compensation cost that has been recognized in income. The excess benefit is not recognized on the income statement, but rather on the balance sheet as additional paid-in capital. The additional net excess tax benefit realized was $1,030, $709 and $9,312 for 2009, 2008 and 2007, respectively.

Stock Options and Stock Appreciation Rights (SARs)

The Company typically grants stock appreciation rights annually on a discretionary basis to its key employees. Prior to 2006, options were granted at market (had an exercise price equal to the closing market price on the date of grant), had 10-year terms and vested over one year, except for the options granted in 2005, which vested immediately. In 2006, the Company began to grant stock appreciation rights (SARs) instead of stock options. SARs are granted at market, vest over one year, have seven-year terms and can be settled only in

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stock. Both stock options and SARs are exercisable upon vesting. On February 4, 2009, the Company granted to employees 859,875 stock-settled SARs, net of forfeitures. All SARs were granted at the closing market prices on the dates of grant. As of December 31, 2009, there was $136 of total unrecognized compensation cost related to nonvested SARs. This cost will be recognized over the remaining weighted-average vesting period, which is approximately one month.

The weighted-average fair value of options and SARs granted was $4.21, $4.36 and $6.43 per share in 2009, 2008 and 2007, respectively. The Company computed the estimated fair values of all options and SARs using the binomial option-pricing model applying the assumptions set forth in the following table:

	2009	*2008*	*2007*
Expected dividend yield	4.6%	3.6%	2.5%
Expected stock price volatility	29.4%	22.1%	18.3%
Risk-free interest rate	1.9%	2.7%	4.8%
Expected life of options/SARs	4 years	4 years	4 years

The assumptions employed in the calculation of the fair value of stock options and SARs were determined as follows:

- Expected dividend yield the Company s annual dividend divided by the stock price at the time of grant.
- Expected stock price volatility based on historical volatility of the Company s common stock measured weekly for a time period equal to the expected life.
- Risk-free interest rate based on U.S. Treasury yields in effect at the time of grant for maturities equal to the expected life.
- Expected life calculated using the simplified method as prescribed in U.S. GAAP, where the expected life is equal to the sum of the vesting period and the contractual term divided by two.

The following tables summarize information about stock options and SARs outstanding and exercisable at December 31, 2009. At December 31, 2009, the fair market value of the Company s stock used to calculate intrinsic value was $29.25 per share.

		Options and SARs Vested and Expected to Vest		
Range of Exercise Prices	*Number Outstanding*	*Weighted-average Remaining Contractual Life*	*Weighted-average Exercise Price*	*Aggregate Intrinsic Value*
$19.69 - $23.80	2,178,236	3.5 years	$22.93	$ 13,764
$23.86 - $28.93	1,872,377	4.6 years	$25.60	$ 6,836
$29.30 - $43.83	1,834,044	5.0 years	$33.49	$
$19.69 - $43.83	5,884,657	4.0 years	$27.07	$ 20,600

		Options and SARs Exercisable		
Range of Exercise Prices	*Number Exercisable*	*Weighted-average Remaining Contractual Life*	*Weighted-average Exercise Price*	*Aggregate Intrinsic Value*

$19.69 - $23.80	1,320,361	1.9 years	$22.44	$	8,994
$23.86 - $28.93	1,872,377	4.6 years	$25.60	$	6,836
$29.30 - $43.83	1,834,044	5.0 years	$33.49	$	
$19.69 - $43.83	5,026,782	3.7 years	$27.65	$	15,830

The activity related to the Company s stock options and SARs is as follows:

	Nonvested	*Vested*	*Total*	*Weighted-average Exercise Price*	
Outstanding, December 31, 2008	645,500	5,133,940	5,779,440	$	27.32
Vested	(645,500)	645,500			
Granted	857,875	2,000	859,875	$	23.69
Exercised		(343,076)	(343,076)	$	20.87
Forfeited/Expired		(411,582)	(411,582)	$	28.72
Outstanding, December 31, 2009	857,875	5,026,782	5,884,657	$	27.07

The aggregate intrinsic value of options and SARs exercised during the years ended December 31, 2009, 2008 and 2007 was $2,269, $2,264 and $26,631, respectively. Cash received by the Company on option exercises was $7,159, $6,470 and $49,698 for the same years, respectively.

Performance-based Stock Awards

The Company typically grants performance contingent restricted stock units (PCSUs) annually on a discretionary basis to certain of its executives and other members of its management team. Both the ultimate number of PCSUs awarded and the vesting period are dependent upon the degree to which performance targets are achieved for three-year performance periods. Half of the units available to be earned are tied to an earnings target and half are tied to a return on assets target. A minimum number of units are awarded regardless of performance. Units awarded vest over five years from the grant date with accelerated vesting over three years if the respective performance target is met. Upon vesting, PCSUs are convertible into common shares on a one-for-one basis.

The three-year performance cycle for the 2007 awards was completed on December 31, 2009. Based on performance, only 96,738 stock units will be awarded, which was the minimum provided for under the award, and did not qualify for accelerated vesting. Therefore, half of these stock units will vest on December 31, 2010 and the remaining half will vest on December 31, 2011.

For the awards granted in 2008 and 2009, the total PCSUs that could ultimately vest ranges from 284,468 to 853,403. The 2008 awards can range from 115,255 to 345,765 units and are tied to the three-year performance period ending December 31, 2010. The 2009 awards can range from 169,213 to 507,638 units and are tied to the three-year period ending December 31, 2011.

The Company s 2006 performance program completed its three-year performance cycle on December 31, 2008. Based on meeting performance goals established at the time of the award, participants earned 202,050 stock units with a vested intrinsic value of $4,679.

Noncash stock-based compensation associated with PCSUs totaled $4,001, $741 and $6,619 for 2009, 2008 and 2007, respectively. As of December 31, 2009, there was approximately $8,791 of total unrecognized compensation cost related to nonvested PCSUs. This cost is expected to be recognized over a weighted-average period of 36 months.

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Restricted Stock Awards

Since 1994, the Company has from time to time granted awards of restricted stock units to certain of the Company s executives. These awards normally vest over a five-year period with one-third vesting on each of the third, fourth and fifth anniversaries of the grant. An executive must be actively employed by the Company on the vesting date for shares to be issued. However, in the event of the executive s death, disability or retirement prior to full vesting, shares will be issued on a pro rata basis up through the time the executive s employment ceases. Participants can elect to defer receipt. Once vested, these awards do not expire. As of December 31, 2009, a total of 437,316 restricted stock units remained outstanding, 305,417 of which were vested. During 2009, 8,133 restricted stock units vested and 31,279 restricted stock units were granted. Noncash stock-based compensation associated with restricted stock grants totaled $746, $558 and $419 for 2009, 2008 and 2007, respectively. As of December 31, 2009, there was $1,118 of total unrecognized compensation cost related to nonvested restricted stock units. This cost is expected to be recognized over a weighted-average period of 22 months.

The activity related to the PCSUs and restricted stock units is as follows:

	Nonvested	*Vested*	*Total*	*Average Grant Date Fair Value Per Share*
Outstanding, December 31, 2008	321,686	865,764	1,187,450	$ 29.80
Granted	481,327		481,327	$ 23.69
Vested	(7,546)	7,546		
Converted		(122,463)	(122,463)	$ 29.74
Dividend equivalents	5,741	35,067	40,808	$ 24.06
Outstanding, December 31, 2009	801,208	785,914	1,587,122	$ 27.81

Deferred Compensation Plans

Certain officers of the Company may elect to defer a portion of their compensation in the form of stock units. Units are granted as of the day the cash compensation would have otherwise been paid using the closing price of the Company s common stock on that day. The units immediately vest and earn dividend equivalents. Units are distributed in the form of common stock upon retirement over a period elected by the employee. Cash compensation totaling $772 was deferred as stock units during 2009, resulting in 32,372 units being granted. Conversions to common stock during 2009 totaled 916 shares.

Since 2006, non-employee directors have been required to defer a minimum of 50% of their quarterly retainer fees into stock units. Units are granted as of the day the cash compensation would have otherwise been paid using the closing price of the Company s common stock on that day. The units immediately vest and earn dividend equivalents. Distributions begin after retirement from the board over a period elected by the director.

12. EMPLOYEE BENEFIT PLANS

Retirement Plans and Retiree Health and Life Insurance Plans

The Company provides non-contributory defined benefit pension plans for a majority of its employees in the United States, and certain of its employees in Mexico and Belgium. Effective December 31, 2003, the Company froze participation for newly hired salaried and non-union hourly U.S. employees in its traditional defined benefit pension plan. At that time, the Company adopted a defined contribution plan, the Sonoco Investment and Retirement Plan (SIRP), which covers its non-union U.S. employees hired on or after January 1, 2004. The Company also sponsors contributory defined benefit pension plans covering the majority of its employees in the United Kingdom, Canada and the Netherlands.

On February 4, 2009, the U.S. qualified defined benefit pension plan was amended to freeze plan benefits for all active participants effective December 31, 2018. At that time, remaining active participants in the U.S. qualified plan will become participants of the SIRP effective January 1, 2019. Active participants of the U.S. qualified plan had a one-time option to transfer into the SIRP effective January 1, 2010. Approximately one third of the active participants chose that option. The plan amendment also affected participants covered by the pension restoration plan (a nonqualified plan) as the benefit formulas for the restoration plan are linked to the qualified plan. The plan amendment resulted in the assets and liabilities of the U.S. qualified and nonqualified plan being remeasured as of February 4, 2009.

The Company also provides postretirement healthcare and life insurance benefits to the majority of its retirees and their eligible dependents in the United States and Canada. In the fourth quarter of 2005, the Company announced changes in eligibility for retiree medical benefits effective January 1, 2006, for its U.S. plan. These changes included the elimination of a Company subsidy toward the cost of retiree medical benefits if certain age and service criteria were not met, as well as the elimination of Company-provided prescription drug benefits for the majority of its current retirees and all future retirees.

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The components of net periodic benefit cost include the following:

	2009	2008	2007
Retirement Plans			
Service cost	**$ 21,757**	$ 26,831	$ 29,563
Interest cost	**73,221**	74,105	70,651
Expected return on plan assets	**(59,275)**	(89,750)	(89,201)
Amortization of net transition obligation	**353**	504	774
Amortization of prior service cost	**956**	1,549	1,453
Amortization of net actuarial loss	**41,317**	12,685	20,847
Special termination benefit cost		288	16
Effect of settlement loss	**935**	3,902	
Effect of curtailment loss	**3,005**	520	
Other	**(171)**		664
Net periodic benefit cost	**$ 82,098**	$ 30,634	$ 34,767
Retiree Health and Life Insurance Plans			
Service cost	**$ 1,454**	$ 1,766	$ 2,423
Interest cost	**3,693**	4,203	4,789
Expected return on plan assets	**(1,206)**	(1,966)	(2,118)
Amortization of prior service credit	**(11,155)**	(10,928)	(9,738)
Amortization of net actuarial loss	**2,319**	2,547	4,045
Net periodic benefit income	**$ (4,895)**	$ (4,378)	$ (599)

The following tables set forth the Plans obligations and assets at December 31:

	Retirement Plans		Retiree Health and Life Insurance Plans	
	2009	2008	2009	2008
Change in Benefit Obligation				
Benefit obligation at January 1	**$ 1,176,000**	$ 1,235,050	**$ 69,028**	$ 78,611
Service cost	**21,757**	26,831	**1,454**	1,766
Interest cost	**73,221**	74,124	**3,693**	4,203
Plan participant contributions	**1,332**	1,803	**3,015**	3,423
Plan amendments	**(4,300)**	2,658	**(17,625)**	(691)
Actuarial loss/(gain)	**74,797**	(24,989)	**(3,678)**	(10,084)
Benefits paid	**(66,231)**	(63,751)	**(6,049)**	(8,020)
Impact of foreign exchange rates	**24,211**	(69,937)	**70**	(180)
Special termination benefit cost		288		
Effect of settlements	**(1,877)**	(9,455)		
Effect of curtailments	**(12,363)**	147		
Other	**(305)**	3,231		
Benefit obligation at December 31	**$ 1,286,242**	$ 1,176,000	**$ 49,908**	$ 69,028

	Retirement Plans	Retiree Health and Life Insurance Plans

	2009	2008	2009	2008
Change in Plan Assets				
Fair value of plan assets at January 1	**$ 768,169**	$ 1,144,109	**$ 17,280**	$ 27,820
Actual return on plan assets	**157,760**	(262,459)	**3,783**	(7,356)
Company contributions	**113,177**	17,222	**1,434**	1,533
Plan participant contributions	**1,332**	1,803	**3,015**	3,423
Benefits paid	**(66,231)**	(63,751)	**(6,049)**	(8,020)
Impact of foreign exchange rates	**19,948**	(58,203)		
Expenses paid	**(5,252)**	(3,917)	**(108)**	(120)
Effect of settlements	**(1,877)**	(9,455)		
Other	(118)	2,820		
Fair value of plan assets at December 31	**$ 986,908**	$ 768,169	**$ 19,355**	$ 17,280
Funded Status of the Plans	**$ (299,334)**	$ (407,831)	**$ (30,553)**	$ (51,748)

	Retirement Plans		Retiree Health and Life Insurance Plans	
	2009	2008	2009	2008
Total Recognized Amounts in the Consolidated Balance Sheets				
Noncurrent assets	**$ 300**	$ 293	**$**	$
Current liabilities	**(8,904)**	(10,725)	**(1,438)**	(1,513)
Noncurrent liabilities	**(290,730)**	(397,399)	**(29,115)**	(50,235)
Net liability	**$ (299,334)**	$ (407,831)	**$ (30,553)**	$ (51,748)

Items not yet recognized as a component of net periodic pension cost that are included in Accumulated Other Comprehensive Loss (Income) as of December 31, 2009 and 2008, are as follows:

	Retirement Plans		Retiree Health and Life Insurance Plans	
	2009	2008	2009	2008
Net actuarial loss	**$ 499,919**	$ 574,207	**$ 19,428**	$ 27,902
Prior service cost/(credit)	**790**	9,044	**(24,263)**	(17,787)
Net transition obligation	**2,367**	2,720		
	$ 503,076	$ 585,971	**$ (4,835)**	$ 10,115

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Of the amounts included in Accumulated Other Comprehensive Loss (Income) as of December 31, 2009, the portions the Company expects to recognize as components of net periodic benefit cost in 2010 are as follows:

	Retirement Plans	*Retiree Health and Life Insurance Plans*
Net actuarial loss	$ 34,993	$ 2,386
Prior service cost/(credit)	62	(10,401)
Net transition obligation	461	
	$ 35,516	$ (8,015)

The amounts recognized in Other Comprehensive Loss/(Income) during 2009 and 2008 include the following:

	Retirement Plans		*Retiree Health and Life Insurance Plans*	
	2009	*2008*	*2009*	*2008*
Adjustments arising during the period:				
Net actuarial loss/(gain)	**$ (32,036)**	$ 322,501	**$ (6,155)**	$ 343
Prior service cost/(credit)	**(4,293)**	2,371	**(17,631)**	(1,623)
Net transition asset		(1,313)		
Reversal of amortization:				
Net actuarial loss	**(42,252)**	(12,676)	**(2,319)**	(2,547)
Prior service cost/(credit)	**(3,961)**	(1,549)	**11,155**	10,928
Net transition obligation	**(353)**	(504)		
Total recognized in Other Comprehensive Loss/(Income)	**$ (82,895)**	$ 308,830	**$ (14,950)**	$ 7,101
Total recognized in Net Periodic Benefit Cost and Other Comprehensive Loss/(Income)	**$ (797)**	$ 339,464	**$ (19,845)**	$ 2,723

The accumulated benefit obligation for all defined benefit plans was $1,222,455 and $1,087,309 at December 31, 2009 and 2008, respectively.

The projected benefit obligation (PBO), accumulated benefit obligation (ABO) and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were, $1,280,291, $1,216,504 and $980,657, respectively, as of December 31, 2009, and $1,171,432, $1,082,741 and $763,308, respectively, as of December 31, 2008.

The following table sets forth the Company s projected benefit payments for the next ten years:

Year	*Retirement Plans*	*Retiree Health and Life Insurance Plans*
2010	$ 75,465	$ 5,810
2011	$ 76,089	$ 5,141
2012	$ 78,348	$ 5,098
2013	$ 79,714	$ 5,077
2014	$ 81,458	$ 5,139
2015-2019	$430,747	$23,390

Assumptions

The following tables set forth the major actuarial assumptions used in determining the PBO, ABO and net periodic cost.

Weighted-average assumptions used to determine benefit obligations at December 31	*U.S. Retirement Plans*	*U.S. Retiree Health and Life Insurance Plans*	*Foreign Plans*
Discount Rate			
2009	5.74%	5.08%	5.00-6.75%
2008	6.12%	6.19%	6.00-7.50%
Rate of Compensation Increase			
2009	4.59%	4.38%	2.50-4.00%
2008	4.66%	4.46%	2.50-4.00%

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31	*U.S. Retirement Plans*	*U.S. Retiree Health and Life Insurance Plans*	*Foreign Plans*
Discount Rate			
2009	6.48%	6.19%	6.00-7.50%
2008	6.39%	6.11%	5.50-6.25%
2007	5.83%	5.68%	4.00-5.25%
Expected Long-term Rate of Return			
2009	8.50%	8.50%	3.75-7.70%
2008	8.50%	8.50%	3.75-7.80%
2007	8.50%	8.50%	3.75-8.00%
Rate of Compensation Increase			
2009	4.66%	4.46%	2.50-4.00%
2008	4.77%	4.57%	2.00-4.50%
2007	4.88%	4.69%	1.00-4.00%

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 long-term rate of return assumption is based on the Company s current and expected future portfolio mix by asset class, and expected nominal returns of these asset classes using an economic building block approach. Expectations for inflation and real interest

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rates are developed and various risk premiums are assigned to each asset class based primarily on historical performance. The expected long-term rate of return also gives consideration to the expected level of outperformance to be achieved on that portion of the Company s investment portfolio under active management. The assumed rate of compensation increase reflects historical experience and management s expectations regarding future salary and incentive increases.

Medical Trends

The U.S. Retiree Health and Life Insurance Plan makes up approximately 99% of the Retiree Health liability. Therefore, the following information relates to the U.S. plan only.

Healthcare Cost Trend Rate	*Pre-age 65*	*Post-age 65*
2009	8.30%	9.30%
2008	9.30%	10.30%
Ultimate Trend Rate	*Pre-age 65*	*Post-age 65*
2009	5.0%	6.0%
2008	5.0%	6.0%
Year at which the Rate Reaches the Ultimate Trend Rate	*Pre-age 65*	*Post-age 65*
2009	2014	2014
2008	2014	2014

Increasing the assumed trend rate for healthcare costs by one percentage point would increase the accumulated postretirement benefit obligation (the APBO) and total service and interest cost component approximately $707 and $70, respectively. Decreasing the assumed trend rate for healthcare costs by one percentage point would decrease the APBO and total service and interest cost component approximately $633 and $63, respectively. Based on amendments to the U.S. plan approved in 1999, which became effective in 2003, cost increases borne by the Company are limited to the Urban CPI, as defined.

Retirement Plan Assets

The following table sets forth the weighted-average asset allocations of the Company s retirement plans at December 31, 2009 and 2008, by asset category.

Asset Category	*U.S.*	*U.K.*	*Canada*
Equity securities			
2009	46.1%	76.6%	71.2%
2008	49.6%	73.7%	59.4%
Debt securities			
2009	35.4%	19.9%	25.6%
2008	37.7%	21.7%	36.9%
Alternative			
2009	8.5%	2.7%	0.0%
2008	12.7%	3.7%	0.0%
Cash and short-term investments			

2009	10.0%	0.8%	3.2%
2008	0.0%	0.9%	3.7%
Total			
2009	100.0%	100.0%	100.0%
2008	100.0%	100.0%	100.0%

The Company employs a total-return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a desired level of risk. Alternative assets such as real estate, private equity and hedge funds are used to enhance expected long-term returns while improving portfolio diversification. Risk tolerance is established through consideration of plan liabilities, plan funded status and corporate financial condition. Investment risk is measured and monitored on an ongoing basis through periodic investment portfolio reviews and periodic asset/liability studies.

At December 31, 2009, total postretirement benefit plan assets were $1,006,263, of which $776,657 were assets of the U.S. Defined Benefit Plan.

U.S. Defined Benefit Plan

The equity investments are diversified among U.S. and non-U.S. stocks of small to large capitalizations. During 2008, the Company completed an asset/liability study for the U.S. Defined Benefit Plan. As a result, the investment mix of the Plan was altered to include a larger percentage allocation to longer duration domestic bonds as well as an increased allocation to international equity securities and alternative investments. The level of domestic equity securities was decreased to accommodate these changes. The current target allocation (midpoint) for the investment portfolio is: Equity Securities 52.5%, Debt Securities 34.5%, Alternative 13% and Cash 0%. The Company made a $100,000 voluntary contribution to its U.S. Defined Benefit Plan in December 2009. At December 31, 2009, approximately $75,000 of cash and short-term investments were held by the Plan as the contribution was not fully invested in the targeted portfolio allocation until January 2010.

United Kingdom Defined Benefit Plan

The equity investments are diversified among U.K. and international stocks of small and large capitalizations. The current target allocation (midpoint) for the investment portfolio is: Equity Securities 72%, Debt Securities 22%, Alternative 5% and Cash 1%.

Canada Defined Benefit Plan

The equity investments are diversified among Canadian and international stocks of primarily large capitalizations and short to intermediate duration corporate and government bonds. The current target allocation (midpoint) for the investment portfolio is: Equity Securities 60%, Debt Securities 40%, Alternative 0% and Cash 0%.

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Retiree Health and Life Insurance Plan Assets

The following table sets forth the weighted-average asset allocations of the Company s U.S. retiree health and life insurance plan at December 31, 2009 and 2008, by asset category. As mentioned previously, the U.S. Retiree Health and Life Insurance Plan makes up approximately 99% of the Retiree Health liability. Therefore, the following information relates to the U.S. Plan only.

Asset Category	
Equity securities	
2009	54.3%
2008	49.9%
Debt securities	
2009	37.0%
2008	39.5%
Alternative	
2009	5.3%
2008	8.0%
Cash	
2009	3.4%
2008	2.6%
Total	
2009	100.0%
2008	100.0%

Contributions

Based on current actuarial estimates, the Company anticipates that the total 2010 contributions made to its retirement plans and its retiree health and life insurance plans will be approximately $22 million. No contribution will be required in 2010 for the U.S. qualified defined benefit pension plan due to the Company s ability to utilize funding credits from having previously funded the plan in excess of minimum requirements. No assurances can be made, however, about funding requirements beyond 2010, as they will depend largely on actual investment returns and future actuarial assumptions.

Plan Amendments

During 2009, the Company s U.S. qualified defined benefit pension plan was amended to allow a lump sum payment option upon termination to plan participants who chose to freeze their benefit December 31, 2009 and move to the SIRP. The effect of this and other smaller amendments was a reduction in the projected benefit obligation of $4,300.

Also during 2009, the Company amended its U.S. Retiree Medical and Life Insurance Plan to freeze the Company subsidy for both pre- and post-Medicare retiree medical coverage at 2009 levels effective January 1, 2010 and to eliminate any early retirement reduction factor applied to the Company subsidy for pre-Medicare coverage for current retirees as of December 31, 2009. In addition, the Company will no longer provide post-Medicare retiree medical coverage to its active employees or post-1981 retirees, except for certain union groups. The impact of these changes was an overall reduction in the accumulated postretirement benefit obligation of $17,625, which will be amortized over a period of 3.3 years.

During 2005, the Company made changes to the eligibility for retiree medical benefits eliminating prescription drug benefits for Medicare-eligible retirees for those employees who retired after 1981 and for all future retirees. These changes resulted in an overall reduction in the accumulated postretirement benefit obligation of $38,132 in 2005, which is being amortized over a period of 4.6 years. The benefit of this amortization will cease during 2010.

Sonoco Savings Plan

The Sonoco Savings Plan is a defined contribution retirement plan provided for the Company s U.S. employees. In accordance with the Internal Revenue Service s Safe Harbor matching contributions and vesting provisions, the plan had provided 100% Company matching on the first 3% of pre-tax contributions, 50% Company matching on the next 2% of pre-tax contributions and 100% immediate vesting. The plan also provides for participant contributions of 1% to 30% of gross pay. The Company s matching contribution to the Sonoco Savings Plan was temporarily suspended effective June 1, 2009. A modified matching contribution was subsequently reinstated by the Company effective January 1, 2010. Under the modified matching arrangement, the Company will match 50% on the first 4% of a participant s pre-tax contributions. The Company s expenses related to the plan for 2009, 2008 and 2007 were approximately $7,400, $15,600 and $15,700, respectively.

Sonoco Investment and Retirement Plan

The Sonoco Investment and Retirement Plan is a defined contribution pension plan provided for the Company s salaried and non-union U.S. employees who were hired on or after January 1, 2004. The Company makes an annual contribution of 4% of all eligible pay plus 4% of eligible pay in excess of the Social Security wage base to eligible participant accounts. Participants are fully vested after five years of service or upon reaching age 55, if earlier. The Company s expenses related to the plan for 2009, 2008 and 2007 were approximately $4,250, $4,550 and $4,750, respectively.

Other Plans

The Company also provides retirement and post-retirement benefits to certain other non-U.S. employees through various Company and local government sponsored defined contribution arrangements. For the most part, the liabilities related to these arrangements are funded in the period they arise. The Company s expenses for these plans were not material for all years presented.

13. INCOME TAXES

The Company provides for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting requirements and tax laws. Assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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The provision for taxes on income for the years ended December 31 consists of the following:

	2009	2008	2007
Pre-tax income			
Domestic	**$136,029**	$150,348	$194,262
Foreign	**78,192**	52,028	61,364
Total pre-tax income	**$214,221**	$202,376	$255,626
Current			
Federal	**$ 24,656**	$ 44,431	$ 59,030
State	**3,277**	7,245	5,764
Foreign	**17,196**	21,965	22,332
Total current	**$ 45,129**	$ 73,641	$ 87,126
Deferred			
Federal	**$ 16,663**	$ (3,781)	$(12,381)
State	**1,855**	(3,437)	(4,086)
Foreign	**3,171**	(11,626)	(15,473)
Total deferred	**$ 21,689**	$(18,844)	$(31,940)
Total taxes	**$ 66,818**	$ 54,797	$ 55,186

Deferred tax liabilities/(assets) are comprised of the following at December 31:

	2009	2008
Depreciation	$ 103,244	$ 102,362
Other	5,082	
Intangibles	77,583	72,337
Gross deferred tax liabilities	$ 185,909	$ 174,699
Retiree health benefits	$ (17,623)	$ (24,794)
Foreign loss carryforwards	(72,487)	(69,451)
Capital loss carryforwards	(22,961)	(10,381)
Employee benefits	(137,920)	(187,055)
Accrued liabilities and other	(63,520)	(63,645)
Gross deferred tax assets	$(314,511)	$(355,326)
Valuation allowance on deferred tax assets	$ 76,540	$ 73,632
Total deferred taxes, net	$ (52,062)	$(106,995)

Foreign subsidiary loss carryforwards of approximately $294,704 remain at December 31, 2009. Their use is limited to future taxable earnings of the respective foreign subsidiaries. Approximately $204,979 of these loss carryforwards do not have an expiration date. The remaining loss carryforwards expire at various dates in the future. Approximately $9,019 of state loss carryforwards and $4,176 of state credit carryforwards remain at December 31, 2009. The state loss and credit carryforwards expire at various dates in the future.

A reconciliation of the U.S. federal statutory tax rate to the actual consolidated tax expense is as follows:

	2009		2008		2007	
Statutory tax rate	$ 74,977	35.0%	$ 70,832	35.0%	$ 89,470	35.0%
	1,589	0.7	2,405	1.2	520	0.2

State income taxes, net of federal tax benefit						
Valuation allowance	1,526	0.7	5,351	2.6	919	0.4
Change in reserve for uncertain tax positions	331	0.2	(2,332)	(1.2)	(10,361)	(4.1)
Change in estimates related to prior years	(931)	(0.4)	(4,460)	(2.2)	(2,229)	(0.9)
Foreign earnings taxed at other than U.S. rates	(5,808)	(2.7)	(13,252)	(6.5)	(10,779)	(4.2)
Effect of tax rate changes enacted during the year	(1,219)	(0.6)	(616)	(0.3)	(6,107)	(2.4)
Other, net	(3,647)	(1.7)	(3,131)	(1.5)	(6,247)	(2.4)
Total taxes	$ 66,818	31.2%	$ 54,797	27.1%	$ 55,186	21.6%

The change in reserve for uncertain tax positions is shown net of associated deferred taxes and accrued interest. Included in the change are net increases of $4,645, $7,166 and $6,058 for uncertain items arising in 2009, 2008 and 2007, respectively. Also included are adjustments related to prior year items, primarily decreases related to lapses of statutes of limitations in international, federal and state jurisdictions as well as overall changes in facts and judgment. These adjustments decreased the reserve by a total of $4,314, $9,498 and $16,419 in 2009, 2008 and 2007, respectively.

In many of the countries in which the Company operates, earnings are taxed at rates lower than in the U.S. This benefit is reflected in Foreign earnings taxed at other than U.S. rates along with other items, if any, that impacted taxes on foreign earnings in the periods presented. Included in 2009 is a $5,287 charge related to a change in Mexican tax law. This change had retrospective effect back to 1999, and eliminated the benefits of filing consolidated returns in those periods. Included in 2008 is an additional benefit of $4,313 from an adjustment to the basis of acquired assets of one of the Company s Italian operations due to a change in local tax law.

The benefits included in Change in estimates related to prior years for each of the years presented consist primarily of adjustments to deferred tax assets and liabilities arising from the availability of more accurate estimates. The 2007 benefit from tax rate changes enacted during the year related primarily to changes in Italy and Canada.

Undistributed earnings of international subsidiaries totaled $309,672 at December 31, 2009. Deferred taxes have not been provided on the undistributed earnings, as the Company considers these amounts to be indefinitely reinvested to finance international growth and expansion. If such amounts were remitted, loaned to the Company, or the stock in the foreign subsidiaries sold, these earnings could become subject to tax.

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Reserve for Uncertain Tax Positions

On January 1, 2007, the Company adopted new U.S. GAAP related to the accounting for uncertainty in income taxes. As a result of the adoption, the Company recorded a reduction of $5,586 to the January 1, 2007 balance of retained earnings.

The following table sets forth the reconciliation of the gross amounts of unrecognized tax benefits at the beginning and ending of the periods indicated:

	2009	*2008*
Gross Unrecognized Tax Benefits at January 1	**$ 34,800**	$ 36,700
Increases in prior years unrecognized tax benefits	**18,300**	1,600
Decreases in prior years unrecognized tax benefits	**(5,700)**	(3,000)
Increases in current year unrecognized tax benefits	**5,200**	7,000
Decreases in unrecognized tax benefits from the lapse of statutes of limitations	**(5,300)**	(6,400)
Settlements	**(1,700)**	(1,100)
Gross Unrecognized Tax Benefits at December 31	**$ 45,600**	$ 34,800

Of the unrecognized tax benefit balances at December 31, 2009 and December 31, 2008, approximately $28,400 and $25,600, respectively, would have an impact on the effective tax rate if ultimately recognized.

Interest and/or penalties related to income taxes are reported as part of income tax expense. The Company had approximately $6,500 accrued for interest at both December 31, 2009 and December 31, 2008. Tax expense for the year ended December 31, 2009 includes $800 of interest expense, which is comprised of an interest benefit of approximately $2,800 related to the expiration of statutes of limitations and interest expense of $3,600 on unrecognized tax benefits. The amounts listed above for accrued interest and interest expense do not reflect the benefit of a federal tax deduction which would be available if the interest were ultimately paid.

The Company and/or its subsidiaries file federal, state and local income tax returns in the United States and various foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, or non-U.S., income tax examinations by tax authorities for years before 2006. With respect to state and local income taxes, the Company is no longer subject to examination prior to 2004, with few exceptions.

The estimate for the potential outcome of any uncertain tax issue is highly judgmental. The Company believes it has adequately provided for any reasonable 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 limitation 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 on a quarterly basis.

14. COMMITMENTS AND CONTINGENCIES

Contingencies

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

The Company is a party to various legal proceedings incidental to its business and is subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which it operates. The Company is also currently a defendant in a purported class action by persons who bought Company stock between February 7, 2007 and September 18, 2007. That suit alleges that the market price of the stock had been inflated by allegedly false and misleading earnings projections published by the Company. As is the case with other companies in similar industries, the Company faces exposure from actual or potential claims and legal proceedings. Some of these exposures have the potential to be material. The Company cannot currently estimate the final outcome of many of the items described or the ultimate amount of potential losses.

Environmental Matters

During the fourth quarter of 2005, the U. S. Environmental Protection Agency (EPA) notified U.S. Paper Mills Corp. (U.S. Mills), a wholly owned subsidiary of the Company, that U.S. Mills and NCR Corporation (NCR), an unrelated party, would be jointly held responsible to undertake a program to remove and dispose of certain PCB-contaminated sediments at a particular site on the lower Fox River in Wisconsin (the Site) which is now labeled by the EPA as Phase 1. U.S. Mills and NCR reached an agreement between themselves that each would fund 50% of the costs of remediation, which through December 31, 2009 have totaled approximately $28,900. The Company currently estimates the remaining costs for the Site remediation project as a whole to be between $3,700 and $9,700. The Company has expensed a total of $17,650 ($12,500 in 2005 and $5,150 in 2007) for its estimated share of the total cleanup cost. Through December 31, 2009, a total of $14,458 has been spent on remediation of the Site. The remaining accrual of $3,192 represents the Company s best estimate of what it is likely to pay to complete the Site project. However, the actual costs associated with cleanup of 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. The Company acquired U.S. Mills in 2001, and the alleged contamination predates the acquisition.

In February 2007, the EPA and Wisconsin Department of Natural Resources (WDNR) issued a general notice of potential liability under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and a request to participate in remedial action implementation negotiations relating to a stretch of the lower Fox River, including the bay at Green Bay, (Operating Units 2 5) to eight potentially responsible parties, including U.S. Mills. Operating Units 2 5 include but also comprise a vastly larger area than the Site. Although it has not accepted any liability, U.S. Mills is reviewing this information and discussing possible remediation scenarios, and the allocation of responsibility therefor, with other potentially responsible parties. On April 9, 2007, U.S. Mills, in conjunction with other potentially responsible parties, presented to the EPA and the WDNR a proposed schedule to mediate the allocation issues among eight potentially responsible parties, including U.S. Mills. Non-binding mediation began in May 2007 and continued as bilateral/multilateral negotiations until mid 2008. To date, no agreement among the parties has occurred.

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

On June 12, 2008, NCR and Appleton Papers, Inc. (API), as plaintiffs, commenced a lawsuit against U.S. Mills, as one of a number of defendants, seeking a declaratory judgment allocating among all the parties the costs and damages associated with the pollution and cleanup of the Lower Fox River. The suit also seeks damages from the defendants for amounts already spent by the plaintiffs, including natural resource damages, and future amounts to be spent by all parties with regard to the pollution and cleanup of the Lower Fox River. 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. The Company believes that this suit will have a minimal, if any, impact on the total amount of the potential remediation costs associated with Operating Units 2 5 but it may have a substantial impact on U.S. Mills share of those costs.

As of December 31, 2009, U.S. Mills had accrued a total of $57,222 for potential liabilities associated with the Fox River contamination (not including amounts accrued for remediation at the Site). 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. In two separate actions during 2008, U.S. Mills increased its reserve for all Fox River related liabilities (other than the Site) from $20,000 to $60,825. Accordingly, U.S. Mills recognized additional pre-tax charges of $40,825 in 2008 for such potential liabilities. Also during 2008, settlements totaling $40,825 were reached on certain of the insurance policies covering the Fox River contamination. The recognition of these insurance settlements offset the impact to earnings of the additional charges in 2008. Through December 31, 2009, a total of $3,603, primarily legal fees, has been spent against this reserve. Although the Company lacks a reasonable basis for identifying any amount within the range of possible loss as a better estimate than any other amount, as has 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 additional exposure to its consolidated financial position is limited to the equity position of U.S. Mills, which was approximately $82,000 at December 31, 2009.

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

As of December 31, 2009 and 2008, the Company (and its subsidiaries) had accrued $63,800 and $70,542, respectively, related to environmental contingencies. Of these, a total of $60,414 and $67,411 relate to U.S. Mills at December 31, 2009 and 2008, respectively. These accruals are included in Accrued expenses and other on the Company s Consolidated Balance Sheets. As discussed above, U.S. Mills also recognized a $40,825 benefit from cash settlements reached on certain insurance policies covering the Fox River contamination in 2008. Of the total settlements received, up to $13,900 is subject to being reimbursed to the insurance companies to the extent, if any, that future costs incurred are less than that amount. U.S. Mills two remaining insurance carriers are in liquidation. It is possible that U.S. Mills may recover from these carriers a small portion of the costs it ultimately incurs. U.S. Mills may also be able to recoup some of the costs it incurs from other parties.

There can be no assurance that such claims for recovery would be successful and no amounts have been recognized in the consolidated financial statements of the Company for such potential recovery or recoupment.

Commitments

As of December 31, 2009, the Company had long-term obligations to purchase electricity and steam, which it uses in its production processes, as well as long-term purchase commitments for certain raw materials, principally old corrugated containers. These purchase commitments require the Company to make total payments of approximately $253,700, as follows: $40,300 in 2010; $38,800 in 2011; $38,300 in 2012, $37,100 in 2013 and a total of $99,200 from 2014 through 2027.

15. SHAREHOLDERS EQUITY AND EARNINGS PER SHARE

Stock Repurchases

The Company s Board of Directors has authorized the repurchase of up to 5,000,000 shares of the Company s common stock. No shares were repurchased under this authorization during 2009. Accordingly, at December 31, 2009, a total of 5,000,000 shares remain available for repurchase.

The Company occasionally repurchases shares of its common stock to satisfy employee tax withholding obligations in association with the exercise of stock appreciation rights and performance-based stock awards. These repurchases, which are not part of a publicly announced plan or program, totaled 50,684 shares during 2009 at a cost of $1,239.

Earnings per Share

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

	2009	2008	2007
Numerator:			
Net income attributable to Sonoco	**$ 151,482**	$ 164,608	$ 214,156
Denominator:			
Weighted average common shares outstanding	**100,780,000**	100,321,000	100,632,000
Dilutive effect of stock-based compensation	**249,000**	665,000	1,243,000
Diluted outstanding shares	**101,029,000**	100,986,000	101,875,000
Per common share:			
Net income attributable to Sonoco:			
Basic	**$ 1.50**	$ 1.64	$ 2.13
Diluted	**$ 1.50**	$ 1.63	$ 2.10

The Company declared dividends totaling $1.08 and $1.07 per share in 2009 and 2008, respectively.

Certain stock appreciation rights and options to purchase shares of the Company s common stock are not dilutive because the exercise price is greater than the market price of the stock at the end of the fiscal year. Accordingly, the following shares were not included in the computations of diluted income per share amounts:

	2009	2008	2007
Anti-dilutive options/SARs	**2,734,616**	3,685,058	1,586,000

These options/SARs may become dilutive in future periods if the market price of the Company s common stock appreciates. No adjustments were made to reported net income in the computation of earnings per share.

16. FINANCIAL REPORTING FOR BUSINESS SEGMENTS

The Company identifies its reportable segments in accordance with U.S. GAAP, by evaluating the level of detail reviewed by the chief operating decision maker, gross profit margins, nature of products sold, nature of the production processes, type and class of customer, methods used to distribute product and nature of regulatory environment.

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

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

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

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

Restructuring, asset impairment and environmental remediation charges, interest expense and interest income are included in income before income taxes under Corporate & Environmental.

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The following table sets forth financial information about each of the Company s business segments:

	Years ended December 31					
	Consumer Packaging	Tubes and Cores/ Paper	Packaging Services	All Other Sonoco	Corporate & Environmental	Consolidated
Total Revenue						
2009	$ 1,552,428	$ 1,418,183	$ 427,705	$ 319,440	$	$ 3,717,756
2008	1,588,251	1,774,821	502,556	402,469		4,268,097
2007	1,457,873	1,807,035	503,240	415,799		4,183,947
Intersegment Sales[1]						
2009	$ 1,827	$ 79,049	$ 1,167	$ 38,382	$	$ 120,425
2008	1,789	100,185	1,190	42,548		145,712
2007	2,918	95,071	1,243	44,723		143,955
Sales to Unaffiliated Customers						
2009	$ 1,550,601	$ 1,339,134	$ 426,538	$ 281,058	$	$ 3,597,331
2008	1,586,462	1,674,636	501,366	359,921		4,122,385
2007	1,454,955	1,711,964	501,997	371,076		4,039,992
Income Before Income Taxes[2]						
2009	$ 169,932	$ 72,248	$ 11,008	$ 26,399	$ (65,366)	$ 214,221
2008	130,944	145,840	28,471	44,379	(147,258)	202,376
2007	105,483	168,842	43,515	51,385	(113,599)	255,626
Identifiable Assets[3]						
2009	$ 1,070,323	$ 1,347,772	$ 302,496	$ 177,510	$ 164,479	$ 3,062,580
2008	1,076,604	1,286,477	300,586	180,873	241,926	3,086,466
2007	1,158,347	1,439,045	313,021	189,179	240,651	3,340,243
Depreciation, Depletion and Amortization[4]						
2009	$ 69,483	$ 85,520	$ 10,872	$ 7,712	$	$ 173,587
2008	73,679	87,654	11,016	10,685		183,034
2007	67,295	91,160	11,041	11,843		181,339
Capital Expenditures[4]						
2009	$ 35,225	$ 56,959	$ 5,235	$ 6,731	$	$ 104,150
2008	41,841	70,510	2,631	8,132		123,114
2007	74,708	75,654	3,174	15,908		169,444

1 Intersegment sales are recorded at a market-related transfer price.

2 Included in Corporate & Environmental are restructuring, asset impairment and environmental charges associated with the following segments:

	Consumer Packaging	Tubes and Cores/ Paper	Packaging Services	All Other Sonoco	Corporate & Environmental	Total
2009	$ 3,767	$ 18,857	$ 1,270	$ 2,081	$ 826	$ 26,801
2008	21,695	32,669	2,058	988	42,651	100,061
2007	23,462	35,493	585	1,801		61,341

The remaining amounts reported as Corporate & Environmental consist of Interest expense and interest income.

3 Identifiable assets are those assets used by each segment in its operations. Corporate assets consist primarily of cash and cash equivalents, investments in affiliates, headquarters facilities and prepaid expenses.

4 Depreciation, depletion and amortization, as well as capital expenditures that are incurred at Corporate, are allocated to the reportable segments and All Other Sonoco.

Geographic Regions

Sales to unaffiliated customers and long-lived assets by geographic region are as follows:

	2009	2008	2007
Sales to Unaffiliated Customers			
United States	**$ 2,315,075**	$ 2,596,641	$ 2,519,949
Europe	**616,744**	762,143	730,393
Canada	**315,880**	374,122	384,416
All other	**349,632**	389,479	405,234
Total	**$ 3,597,331**	$ 4,122,385	$ 4,039,992
Long-lived Assets			
United States	**$ 1,285,838**	$ 1,314,106	$ 1,346,288
Europe	**308,012**	320,271	368,492
Canada	**246,835**	228,630	303,454
All other	**114,658**	103,814	162,098
Total	**$ 1,955,343**	$ 1,966,821	$ 2,180,332

Sales are attributed to countries/regions based upon the plant location from which products are shipped. Long-lived assets are comprised of property, plant and equipment, goodwill, intangible assets and investment in affiliates (see Notes 6 and 7).

17. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the components of accumulated other comprehensive loss and the changes in accumulated other comprehensive loss, net of tax as applicable, for the years ended December 31, 2009 and 2008:

	Foreign Currency Translation Adjustments	*Defined Benefit Plans*	*Derivative Financial Instruments*	*Accumulated Other Comprehensive Loss*
Balance at December 31, 2007	$ 72,819	$ (178,658)	$ (1,535)	$ (107,374)
Change during 2008	(141,556)	(194,149)	(11,600)	(347,305)
Balance at December 31, 2008	$ (68,737)	$ (372,807)	$ (13,135)	$ (454,679)
Change during 2009	79,535	56,149	8,526	144,210
Balance at December 31, 2009	$ 10,798	$ (316,658)	$ (4,609)	$ (310,469)

The cumulative tax benefit on Derivative Financial Instruments was $2,720 and $7,680 at December 31, 2009 and 2008, respectively. The tax benefit on Derivative Financial Instruments decreased by $(4,960) during the year ended December 31, 2009 and increased by $6,820 during the year ended December 31, 2008.

The cumulative tax benefit on Defined Benefit Plans was $186,001 and $225,258 at December 31, 2009 and 2008, respectively. The tax benefit on Defined Benefit Plans decreased by $(39,257) during the year ended December 31, 2009 and increased by $122,453 during the year ended December 31, 2008.

The change in defined benefit plans includes pre-tax changes of $(2,439) during the year ended December 31, 2009 and $671 during the year ended December 31, 2008 related to changes in benefit plans of the Company s equity method investments.

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18. NEW ACCOUNTING PRONOUNCEMENTS

Discussed below is the significant accounting guidance that first became effective for the Company during fiscal 2009 and any guidance issued but not yet effective that is expected to have a significant impact when adopted. Other guidance which became effective during the year either does not apply to the Company or did not have a meaningful impact on the Company s financial statements.

In September 2006, the FASB issued FAS 157, Fair Value Measurements, which defined fair value, established a framework for measuring fair value and expanded disclosures about fair value measurements. The provisions of FAS 157 became effective in two phases. As of January 1, 2008, FAS 157 became effective only for financial assets and liabilities and for any non-financial assets and liabilities measured at fair value on a recurring basis. Effective January 1, 2009, the provisions of FAS 157 applies to all assets and liabilities. The adoption of FAS 157 did not require any new fair value measurements. The impact to the Company of the full adoption of FAS 157 was largely confined to how the Company values assets recorded in connection with a business acquisition and in its analysis of potential goodwill and other asset impairments. Beyond the expanded disclosure, the adoption of FAS 157 has not had a material impact on the Company s financial statements.

In December 2007, the FASB issued FAS 141(R), Business Combinations which replaced FAS 141. While FAS 141(R) retained the fundamental requirement that the acquisition method of accounting be used for all business combinations, several significant changes were made, some of which include: the scope of transactions covered; the treatment of transaction costs and subsequent restructuring charges; accounting for in-process research and development, contingent assets and liabilities, and contingent consideration; and how post-transaction adjustments are reported. For Sonoco, this statement became effective on January 1, 2009, and applies to business combinations occurring on or after that date. The application of this standard did not impact the Company s financial statements for transactions that occurred prior to the effective date. During 2009, the Company made only one acquisition at a total cost of approximately $7,000 and, as such, the application of FAS 141(R) was inconsequential. However, its application is expected to have a significant impact on the Company s accounting for future acquisitions compared to prior practice.

In December 2007, the FASB issued FAS 160, Noncontrolling Interests in Consolidated Financial Statements which amended the accounting and reporting for a noncontrolling interest in a subsidiary and the deconsolidation of a subsidiary. This statement provides that a noncontrolling interest in a subsidiary should be reported as equity rather than as a minority interest liability and requires that all purchases, sales, issuances and redemptions of ownership interests in a consolidated subsidiary be accounted for as equity transactions if the parent retains a controlling financial interest. FAS 160 also requires that a gain or loss be recognized when a subsidiary is deconsolidated and, if a parent retains a noncontrolling equity investment in the former subsidiary, that the investment be measured at its fair value. This statement became effective January 1, 2009, and was applied prospectively except for the presentation and disclosure requirements which are retrospective. Accordingly, upon adoption on January 1, 2009, minority interests, which were previously included in Other liabilities on prior years balance sheets, were renamed noncontrolling interests and are presented as a component of equity for all periods presented. In addition, Net income on each of the Company s prior period Consolidated Statements of Income was recast to include the net income attributable to noncontrolling interests. Net income attributable to Sonoco (previously reported as Net income) was not affected.

In March 2008, the FASB issued FAS 161, Disclosures about Derivative Instruments and Hedging Activities which requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. This Statement was adopted effective January 1, 2009, and, as such, the required disclosure enhancements are included in these financial statements.

In December 2008, the FASB issued FSP FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. This FSP requires expanded disclosure regarding how investment allocation decisions are made, including factors that are pertinent to an understanding of investment policies and strategies; the fair value of each major category of plan assets; information that enables financial statement users to assess the inputs and valuation techniques used to develop fair value measurements of plan assets, including additional details regarding assets valued using significant unobservable inputs (Level 3); and, significant concentrations of risk. This Staff Position is effective for financial statements issued for fiscal years ending after December 15, 2009, and as such the required disclosures are included in these financial statements. The provisions of this FSP are not required for earlier periods that are presented for comparative purposes.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. This FSP modified FAS 141(R) to provide that contingent assets acquired or liabilities assumed in a business combination shall be recorded at fair value if the acquisition-date fair value can be determined during the measurement period. If not, such items are to be recognized at the acquisition date only if they meet the recognition requirements of FAS 5. In periods after the acquisition date, contingent assets and liabilities that were not recognized at the acquisition date are to be accounted for in accordance with other applicable GAAP, including FAS 5, as appropriate. Items recognized at the acquisition date (or during the measurement period) are to be recorded as part of the acquisition. Items recognized subsequently are to be reflected in that period s income. While this FSP had an effective date of January 1, 2009, because there was no such activity in the current year it had no impact on the Company s financial statements, but it may have application in future years.

As of December 31, 2009, there was no issued guidance pending future adoption that is expected to have a significant impact on the Company.

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19. SELECTED QUARTERLY FINANCIAL DATA

The following table sets forth selected quarterly financial data of the Company:

(Unaudited)	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
2009				
Net sales	**$ 800,629**	**$ 864,231**	**$ 930,560**	**$ 1,001,911**
Gross profit	**140,863**	**158,284**	**173,056**	**193,843**
Restructuring/Asset impairment charges	**(7,210)**	**(10,386)**	**(158)**	**(9,047)**
Net income attributable to Sonoco	**23,122**	**33,610**	**47,671**	**47,079**
Per common share:				
Net income attributable to Sonoco:				
- basic	$ .23	$ .33	$ .47	$ .47
- diluted	.23	.33	.47	.46
Cash dividends				
- common	.27	.27	.27	.27
Market price				
- high	25.41	26.18	28.95	30.61
- low	16.70	20.27	22.58	26.17
2008				
Net sales	$ 1,037,996	$ 1,086,567	$ 1,063,250	$ 934,572
Gross profit	186,402	194,681	184,736	158,211
Restructuring/Asset impairment charges	(61,538)	(10,770)	(5,530)	(22,223)
Net income attributable to Sonoco	13,259	57,986	57,351	36,012
Per common share:				
Net income attributable to Sonoco:				
- basic	$ .13	$ .58	$ .57	$ .36
- diluted	.13	.57	.57	.36
Cash dividends				
- common	.26	.27	.27	.27
Market price				
- high	33.48	34.85	35.81	31.04
- low	25.97	28.20	29.58	19.84

20. VALUATION AND QUALIFYING ACCOUNTS

	Column A	*Column B - Additions*		*Column C*	*Column D*
	Balance at Beginning of Year	*Charged to Costs and Expenses*	*Charged to Other*	*Deductions*	*Balance at End of Year*
2009					

Allowance for Doubtful Accounts	**$ 9,269**	**$ 5,825**	**$ 705[1]**	**$ 4,821[2]**	**$ 10,978**
LIFO Reserve	**17,667**	**1,488[3]**			**19,155**
Valuation Allowance on Deferred Tax Assets	**73,632**	**4,121[4]**	**1,928[5]**	**3,141[6]**	**76,540**
2008					
Allowance for Doubtful Accounts	$ 9,519	$ 4,516	$ (395)[1]	$ 4,371[2]	$ 9,269
LIFO Reserve	16,404	1,263[3]			17,667
Valuation Allowance on Deferred Tax Assets	73,175	11,396[4]	(4,894)[5]	6,045[6]	73,632
2007					
Allowance for Doubtful Accounts	$ 8,983	$ 1,261	$ 1,395[1]	$ 2,120[2]	$ 9,519
LIFO Reserve	14,602	1,802[3]			16,404
Valuation Allowance on Deferred Tax Assets	56,754	918	15,503[7]		73,175

1 Includes translation adjustments and other insignificant adjustments.
2 Includes amounts written off.
3 Includes adjustments based on pricing and inventory levels.
4 Includes creation of foreign and domestic deferred tax assets for which no benefit is expected to be realized.
5 Includes translation adjustments.
6 Includes utilization and expiration of capital loss carryforwards, net operating loss carryforwards, and other deferred tax assets.
7 Includes changes in valuation allowance due to foreign net operating losses and translation adjustments.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2009. PricewaterhouseCoopers LLP (PwC), our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2009, and has issued an attestation report, which appears at the beginning of Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

The Company is continuously seeking to improve the efficiency and effectiveness of its operations and of its internal controls. This results in refinements to processes throughout the Company. However, there has been no change in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

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n PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information set forth in the Company s definitive Proxy Statement for the annual meeting of shareholders to be held on April 21, 2010 (the Proxy Statement), under the captions Election of Directors, Information Concerning Directors Whose Terms Continue, Additional Information About Experience and Qualifications of Directors and Nominees, and Section 16(a) Beneficial Ownership Reporting Compliance, is incorporated herein by reference. Information about executive officers of the Company is set forth in Item 1 of this Annual Report on Form 10-K under the caption Executive Officers of the Registrant.

Code of Ethics The Company has adopted a code of ethics (as defined in Item 406 of Regulation S-K) that applies to its principal executive officer, principal financial officer, principal accounting officer, and other senior executive and senior financial officers. This code of ethics is available through the Company s Web site, *www.sonoco.com*, and is available in print to any shareholder who requests it. Any waivers or amendments to the provisions of this code of ethics will be posted to this Web site within four business days after the waiver or amendment.

Audit Committee Members The Company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The audit committee is comprised of the following members: Marc D. Oken, Chairman; Edgar H. Lawton III; Caleb C. Fort; John E. Linville; James M. Micali; and Philippe R. Rollier.

Audit Committee Financial Expert The Company s Board of Directors has determined that the Company has at least one audit committee financial expert, as that term is defined by Item 407(d)(5) of Regulation S-K promulgated by the Securities and Exchange Commission, serving on its audit committee. Marc D. Oken meets the terms of the definition and is independent based on the criteria in the New York Stock Exchange Listing Standards. Pursuant to the terms of Item 407(d)(5) of Regulation S-K, a person who is determined to be an audit committee financial expert will not be deemed an expert for any purpose as a result of being designated or identified as an audit committee financial expert pursuant to Item 407, and such designation or identification does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the audit committee and Board of Directors in the absence of such designation or identification. Further, the designation or identification of a person as an audit committee financial expert pursuant to Item 407 does not affect the duties, obligations or liability of any other member of the audit committee or Board of Directors.

The Company s Corporate Governance Guidelines, Audit Committee Charter, Corporate Governance and Nominating Committee Charter and Executive Compensation Committee Charter are available through the Company s Web site, *www.sonoco.com*. This information is available in print to any shareholder who requests it.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth in the Proxy Statement under the caption Compensation Committee Interlocks and Insider Participation, under the caption Management Compensation, and under the caption Director Compensation is incorporated herein by reference. The information set forth in the Proxy Statement under the caption Compensation Committee Report is also incorporated herein by reference, but pursuant to the Instructions to Item 407(e)(5) of Regulation S-K, such report shall not be deemed to be soliciting material or subject to Regulation 14A, and shall be deemed to be furnished and not filed and will not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 as a result of being so furnished.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information set forth in the Proxy Statement under the caption Security Ownership of Certain Beneficial Owners, and under the caption Security Ownership of Management is incorporated herein by reference.

Equity Compensation Plan Information

The following table sets forth aggregated information about all of the Company s compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance as of December 31, 2009:

Plan category	*Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)*	*Weighted-average exercise price of outstanding options, warrants and rights (b)*	*Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))[1] (c)*
Equity compensation plans approved by security holders	7,880,324	$ 27.02	5,914,617
Equity compensation plans not approved by security holders			
Total	7,880,324	$ 27.02	5,914,617

[1] The Sonoco Products Company 2008 Long-Term Incentive Plan was adopted at the Company s 2008 Annual Meeting of Shareholders. The maximum number of shares of common stock that may be issued was set at 8,500,000 shares, subject to certain adjustments, which included all awards that were granted, forfeited or expired during 2008 under all previous plans.

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The weighted-average exercise price of $27.02 relates to stock options, stock appreciation rights, and deferred compensation stock units, which account for 6,008,252 of the 7,880,324 securities issuable upon exercise. The remaining securities relate to performance contingent restricted stock units and restricted stock unit awards that have no exercise price requirement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information set forth in the Proxy Statement under the captions Related Party Transactions and Corporate Governance Director Independence Policies is incorporated herein by reference. Each member of the Audit, Corporate Governance and Nominating, and Executive Compensation Committees is independent as defined in the listing standards of the New York Stock Exchange.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information set forth in the Proxy Statement under the caption Independent Registered Public Accounting Firm is incorporated herein by reference.

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n PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements The following financial statements are provided under Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K:

Consolidated Balance Sheets as of December 31, 2009 and 2008

Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Comprehensive Income/(Loss) for the years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedules All schedules are omitted because they are not required, are not applicable or the required information is given in the financial statements or notes thereto.

3. Exhibits

3-1 Articles of Incorporation, as amended (incorporated by reference to the Registrant s Form 10-Q for the quarter ended June 27, 1999)

3-2 By-Laws, as amended (incorporated by reference to the Registrant s Form 8-K filed December 6, 2007)

4-1 Indenture, dated as of June 15, 1991, between Registrant and The Bank of New York, as Trustee (incorporated by reference to the Registrant s Form S-4 (File Number 333-119863))

4-2 First Supplemental Indenture, dated as of June 23, 2004, between Registrant and The Bank of New York, as Trustee (incorporated by reference to the Registrant s Form 10-Q for the quarter ended June 27, 2004)

4-3 Form of Note for 5.625% Notes due 2016 (incorporated by reference to the Registrant s Form S-4 (File Number 333-119863))

4-4 Form of Note for 6.50% Notes due November 15, 2013 (incorporated by reference to Registrant s Form 10-Q for the quarter ended September 30, 2001)

10-1 1991 Sonoco Products Company Key Employee Stock Plan, as amended (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 30, 2007)

10-2 Sonoco Products Company 1996 Non-employee Directors Stock Plan, as amended (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 30, 2007)

10-3 Description of Stock Appreciation Rights and Performance Contingent Restricted Stock Units granted to executive officers of the Registrant on February 3, 2009 (incorporated by reference to Registrant s Form 8-K filed February 9, 2009)

10-4 Sonoco Savings Plan, as amended (incorporated by reference to the Registrant s Form S-8 filed October 28, 2002 (File No. 333-100799) and Form 10-Q for the quarter ended March 29, 2009)

10-5 Sonoco Products Company 2008 Long-Term Incentive Plan (incorporated by reference to the Company s Proxy Statement for the Annual Meeting of Shareholders on April 16, 2008)

10-6 Deferred Compensation Plan for Key Employees of Sonoco Products Company (a.k.a. Deferred Compensation Plan for Corporate Officers of Sonoco Products Company), as amended (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 28, 2008)

10-7 Omnibus Benefit Restoration Plan of Sonoco Products Company, amended and restated as of January 1, 2008 (incorporated by reference to the Registrant s Form 10-K for the year ended December 31, 2008 and Form 10-Q for the quarter ended March 29, 2009)

10-8	Deferred Compensation Plan for Outside Directors of Sonoco Products Company, as amended (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 28, 2008)
10-9	Form of Executive Bonus Life Agreement between the Company and certain executive officers (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 26, 2004)
10-10	Form of Executive Bonus Life Supplemental Agreement between the Company and Charles L. Sullivan, Jr. (incorporated by reference to Registrant s Form 10-K for the year ended December 31, 2004)

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10-11	Adjustment to Supplemental Executive Retirement Plan for Charles L. Sullivan, Jr. (incorporated by reference to Registrant s Form 8-K filed April 22, 2005)
10-12	Amendment to terms of Restricted Stock Units granted to Harris E. DeLoach, Jr. (incorporated by reference to Registrant s Form 8-K filed October 19, 2005)
10-13	Amendments to the Omnibus Benefit Restoration Plan of Sonoco Products Company, dated February 10, 2010
10-14	Description of Stock Appreciation Rights and Long-term Restricted Stock Units granted to executive officers of the Registrant on January 31, 2006 (incorporated by reference to Registrant s Form 8-K filed February 3, 2006)
10-15	Amended and Restated Credit Agreement (incorporated by reference to Registrant s Form 10-Q for the quarter ending June 25, 2006)
10-16	Sonoco Investment and Retirement Plan, effective January 1, 2004 (incorporated by reference to the Registrant s Form 10-K for the year ended December 31, 2007)
10-17	Sonoco Products Company Amended and Restated Trust Agreement for Executives, as of October 15, 2008 (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 28, 2008)
10-18	Sonoco Products Company Amended and Restated Directors Deferral Trust Agreement, as of October 15, 2008 (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 28, 2008)
10-19	Description of Stock Appreciation Rights and Performance Contingent Restricted Stock Units granted to executive officers of the Registrant on February 5, 2008 (incorporated by reference to Registrant s Form 8-K filed February 22, 2008)
10-20	Performance-Based Annual Incentive Plan for Executive Officers (incorporated by reference to the Registrant s Proxy Statement for the April 19, 2000 Annual Meeting of Shareholders)
12	Statements regarding Computation of Ratio of Earnings to Fixed Charges
21	Subsidiaries of the Registrant
23	Consent of Independent Registered Public Accounting Firm with respect to Registrant s Form 10-K
31	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and 17 C.F.R. 240.13a-14(a)
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and 17 C.F.R. 240.13a-14(b)
99	Proxy Statement, filed in conjunction with annual shareholders meeting scheduled for April 21, 2010 (to be filed within 120 days after December 31, 2009)

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n SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 26th day of February 2010.

SONOCO PRODUCTS COMPANY

Harris E. DeLoach, Jr.
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on this 26th day of February 2010.

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

Barry L. Saunders
Vice President and Corporate Controller
(principal accounting officer)

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n SIGNATURES, continued

/s/ H.E. DeLoach, Jr.	President,
H.E. DeLoach, Jr.	Chief Executive Officer and Director (Chairman)
/s/ J.L. Coker	Director
J.L. Coker	
/s/ P.L. Davies	Director
P.L. Davies	
/s/ C.C. Fort	Director
C.C. Fort	
/s/ E.H. Lawton, III	Director
E.H. Lawton, III	
/s/ J.E. Linville	Director
J.E. Linville	
/s/ J.M. Micali	Director
J.M. Micali	
/s/ J.H. Mullin, III	Director
J.H. Mullin, III	
/s/ L.W. Newton	Director
L.W. Newton	
/s/ M.D. Oken	Director
M.D. Oken	
/s/ P.R. Rollier	Director
P.R. Rollier	
/s/ T.E. Whiddon	Director
T.E. Whiddon	

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