SONOCO PRODUCTS CO
Form 10-Q
August 03, 2016

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 3, 2016
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 001-11261
SONOCO PRODUCTS COMPANY

Incorporated under the laws of South Carolina	I.R.S. Employer Identification No. 57-0248420

1 N. Second St.
Hartsville, South Carolina 29550
Telephone: 843/383-7000
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Indicate the number of shares outstanding of each of the issuer’s classes of common stock at July 21, 2016:
Common stock, no par value: 100,237,148

SONOCO PRODUCTS COMPANY
INDEX

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.
SONOCO PRODUCTS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
(Dollars and shares in thousands)

	July 3, 2016	December 31, 2015*
Assets		
Current Assets		
Cash and cash equivalents	$107,748	$182,434
Trade accounts receivable, net of allowances	669,085	627,962
Other receivables	46,427	46,801
Inventories:		
Finished and in process	151,213	139,589
Materials and supplies	246,367	245,894
Prepaid expenses	50,913	64,698
	1,271,753	1,307,378
Property, Plant and Equipment, Net	1,109,013	1,112,036
Goodwill	1,151,556	1,140,461
Other Intangible Assets, Net	229,702	245,095
Long-term Deferred Income Taxes	49,247	52,626
Other Assets	153,605	156,089
Total Assets	$3,964,876	$4,013,685
Liabilities and Equity		
Current Liabilities		
Payable to suppliers	$491,044	$508,057
Accrued expenses and other	276,579	294,227
Notes payable and current portion of long-term debt	51,719	113,097
Accrued taxes	5,344	7,135
	824,686	922,516
Long-term Debt, Net of Current Portion	1,029,943	1,015,270
Pension and Other Postretirement Benefits	412,572	432,964
Deferred Income Taxes	80,072	72,933
Other Liabilities	41,887	37,129
Commitments and Contingencies		
Sonoco Shareholders' Equity		
Common stock, no par value		
Authorized 300,000 shares		
100,299 and 100,944 shares issued and outstanding at July 3, 2016 and December 31, 2015, respectively	7,175	7,175
Capital in excess of stated value	374,332	404,460
Accumulated other comprehensive loss	(675,518)	(702,533)
Retained earnings	1,846,903	1,803,827
Total Sonoco Shareholders' Equity	1,552,892	1,512,929
Noncontrolling Interests	22,824	19,944
Total Equity	1,575,716	1,532,873
Total Liabilities and Equity	$3,964,876	$4,013,685

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

See accompanying Notes to Condensed Consolidated Financial Statements

3

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

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Net sales	$1,205,680	$1,248,590	$2,431,956	$2,454,642
Cost of sales	963,667	1,008,274	1,944,690	1,993,936
Gross profit	242,013	240,316	487,266	460,706
Selling, general and administrative expenses	126,611	130,887	260,804	227,552
Restructuring/Asset impairment charges	23,278	10,445	32,506	10,086
Income before interest and income taxes	92,124	98,984	193,956	223,068
Interest expense	14,092	14,237	28,281	28,012
Interest income	548	636	950	1,190
Income before income taxes	78,580	85,383	166,625	196,246
Provision for income taxes	24,790	24,023	53,984	50,244
Income before equity in earnings of affiliates	53,790	61,360	112,641	146,002
Equity in earnings of affiliates, net of tax	2,928	3,269	4,267	4,315
Net income	$56,718	$64,629	$116,908	$150,317
Net (income) attributable to noncontrolling interests	(466)	(250)	(742)	(158)
Net income attributable to Sonoco	$56,252	$64,379	$116,166	$150,159
Weighted average common shares outstanding:				
Basic	101,281	101,428	101,514	101,406
Diluted	101,873	102,424	102,148	102,362
Per common share:				
Net income attributable to Sonoco:				
Basic	$0.56	$0.63	$1.14	$1.48
Diluted	$0.55	$0.63	$1.14	$1.47
Cash dividends	$0.37	$0.35	$0.72	$0.67

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Net income	$56,718	$64,629	$116,908	$150,317
Other comprehensive income/(loss):				
Foreign currency translation adjustments	(17,389)	3,740	13,439	(59,246)
Changes in defined benefit plans, net of tax	3,006	(1,125)	8,954	5,148
Changes in derivative financial instruments, net of tax	2,722	2,449	4,622	1,244
Other comprehensive income/(loss)	(11,661)	5,064	27,015	(52,854)
Comprehensive income	45,057	69,693	143,923	97,463
Net (income) attributable to noncontrolling interests	(466)	(250)	(742)	(158)
Other comprehensive (income)/loss attributable to noncontrolling interests	(726)	(470)	(2,138)	161
Comprehensive income attributable to Sonoco	$43,865	$68,973	$141,043	$97,466

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended	
	July 3, 2016	June 28, 2015
Cash Flows from Operating Activities:		
Net income	$116,908	$150,317
Adjustments to reconcile net income to net cash provided by operating activities:		
Asset impairment	4,199	2,462
Depreciation, depletion and amortization	105,530	104,024
Gain on reversal of Fox River environmental reserves	—	(32,543)
Share-based compensation expense	9,665	4,353
Equity in earnings of affiliates	(4,267)	(4,315)
Cash dividends from affiliated companies	4,575	1,150
Net (gain)/loss on disposition of assets	11,291	(7,210)
Pension and postretirement plan expense	22,244	27,965
Pension and postretirement plan contributions	(35,647)	(25,118)
Tax effect of share-based compensation exercises	1,290	3,513
Excess tax benefit of share-based compensation	(1,331)	(3,521)
Net increase/(decrease) in deferred taxes	3,613	(9,487)
Change in assets and liabilities, net of effects from acquisitions, dispositions, and foreign currency adjustments:		
Trade accounts receivable	(40,357)	(33,084)
Inventories	(15,998)	(18,020)
Payable to suppliers	(7,669)	14,913
Prepaid expenses	1,377	(7,014)
Accrued expenses	(7,909)	5,941
Income taxes payable and other income tax items	12,197	417
Fox River environmental reserve spending	(580)	(720)
Other assets and liabilities	6,918	(941)
Net cash provided by operating activities	186,049	173,082
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(98,774)	(86,713)
Cost of acquisitions, net of cash acquired	(863)	(15,697)
Cash paid for disposition of assets	(8,436)	—
Proceeds from the sale of assets	3,594	31,006
Investment in affiliates and other, net	169	(2,775)
Net cash used in investing activities	(104,310)	(74,179)
Cash Flows from Financing Activities:		
Proceeds from issuance of debt	186,926	40,240
Principal repayment of debt	(248,817)	(23,575)
Net increase in commercial paper	14,000	—
Net increase/(decrease) in outstanding checks	5,255	(1,204)
Excess tax benefit of share-based compensation	1,331	3,521
Cash dividends	(72,679)	(67,379)
Shares acquired	(42,125)	(7,728)
Shares issued	632	1,310
Net cash used in financing activities	(155,477)	(54,815)

Effects of Exchange Rate Changes on Cash	(948)	12,519
Net (Decrease)/Increase in Cash and Cash Equivalents	(74,686)	56,607
Cash and cash equivalents at beginning of period	182,434	161,168
Cash and cash equivalents at end of period	$107,748	$217,775

See accompanying Notes to Condensed Consolidated Financial Statements

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

Note 1: Basis of Interim Presentation

In the opinion of the management of Sonoco Products Company (the “Company” or “Sonoco”), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments, unless otherwise stated) necessary to state fairly the consolidated financial position, results of operations and cash flows for the interim periods reported herein. Operating results for the three and six months ended July 3, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

With respect to the unaudited condensed consolidated financial information of the Company for the three- and six-month periods ended July 3, 2016 and June 28, 2015 included in this Form 10-Q, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated August 3, 2016 appearing herein, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a “report” or a “part” of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

Note 2: New Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, "Financial Instruments - Credit Losses," which requires measurement and recognition of expected versus incurred credit losses for financial assets held. The guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those annual periods. The Company does not expect the implementation of ASU 2016-13 to have a material effect on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for share-based payment transactions, including 1) accounting for income taxes, 2) classification of excess tax benefits in the statement of cash flows, 3) forfeitures, 4) minimum statutory tax withholding requirements, 5) cash flow classification of employee taxes withheld in the form of shares, 6) the practical expedient for estimating the expected term, and 7) intrinsic value. The guidance is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. The Company does not expect the implementation of ASU 2016-09 to have a material effect on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers," "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which provides guidance on recording revenue on a gross basis versus a net basis based on the determination of whether an entity is a principal or an agent when another party is involved in providing goods or services to a customer. The amendments in this Update affect the guidance in ASU No. 2014-09 and are effective in the same time frame as ASU 2014-09 as discussed below.

In February 2016, the FASB issued ASU 2016-02, which changes accounting for leases and requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance on the balance sheet and requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The accounting for lessors does not fundamentally change except for changes to conform and align guidance to the lessee guidance. The guidance is effective for reporting periods beginning after December 15, 2018, including interim periods within those fiscal years and requires retrospective application. The Company is still assessing the impact of ASU 2016-02 on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, and not recorded as separate assets. This update was effective for reporting periods beginning after December 15, 2015, and was required to be applied on a retrospective basis. Accordingly, the Company adopted ASU 2015-03 on January 1, 2016. Debt issuance costs totaling $6,584 previously included in "Other Assets" have been reclassified to "Long-Term Debt, Net of Current Portion" on the Company's Condensed Consolidated Balance Sheets as of December 31, 2015.

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

In May 2014, the FASB issued ASU 2014-09, "Revenue From Contracts With Customers," which changes the definitions/criteria used to determine when revenue should be recognized from being based on risks and rewards to being based on control. Among other changes, ASU 2014-09 changes the manner in which variable consideration is recognized, requires recognition of the time value of money when payment terms exceed one year, provides clarification on accounting for contract costs, and expands disclosure requirements. The effective date for implementation of ASU 2014-09 has been deferred and is now effective for reporting periods beginning after December 15, 2017. The Company is still assessing the impact of ASU 2014-09 on its consolidated financial statements.

During the three- and six-month periods ended July 3, 2016, there have been no other newly issued nor newly applicable accounting pronouncements that have had, or are expected to have, a material impact on the Company's financial statements. Further, at July 3, 2016, there were no other pronouncements pending adoption that are expected to have a material impact on the Company's consolidated financial statements.

Note 3: Acquisitions

The Company completed the acquisition of a small tube and core business in Australia on June 24, 2016. The all-cash purchase price of the business was $863. In conjunction with this acquisition, the Company recorded net tangible assets of $149, identifiable intangibles of $297, and goodwill of $417, none of which is expected to be tax deductible. This acquisition is expected to generate approximately $800 of annual sales in the Paper and Industrial Converted Products segment.

Acquisition-related costs of $822 and $2,082 were incurred in the three months ended July 3, 2016 and June 28, 2015, respectively. These costs totaled $1,148 and $3,247 for the six months ended July 3, 2016 and June 28, 2015, respectively. Acquisition-related costs consist primarily of legal and professional fees and are included in "Selling, general and administrative expenses" in the Company's Condensed Consolidated Statements of Income.

Note 4: Shareholders' Equity

Earnings per Share

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

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Numerator:				
Net income attributable to Sonoco	$56,252	$ 64,379	$116,166	$ 150,159
Denominator:				
Weighted average common shares outstanding:				
Basic	101,281,000	101,428,000	101,514,000	101,406,000
Dilutive effect of stock-based compensation	592,000	996,000	634,000	956,000
Diluted	101,873,000	102,424,000	102,148,000	102,362,000
Reported net income attributable to Sonoco per common share:				
Basic	$0.56	$ 0.63	$1.14	$ 1.48
Diluted	$0.55	$ 0.63	$1.14	$ 1.47

8

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

Certain stock appreciation rights 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 reporting period. These stock appreciation rights may become dilutive in the future if the market price of the Company's common stock appreciates. The average number of stock appreciation rights that were not dilutive and therefore not included in the computation of diluted earnings per share during the three- and six-month periods ended July 3, 2016 and June 28, 2015 was as follows:

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Anti-dilutive stock appreciation rights	—	595,527	714,872	495,705

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

Stock Repurchases

On February 10, 2016, the Company’s Board of Directors authorized the repurchase of up to 5,000,000 shares of the Company's common stock. During the six months ended July 3, 2016, a total of 835,218 shares were repurchased under this authorization at a cost of $37,931; accordingly, at July 3, 2016, a total of 4,164,782 shares remain available for repurchase. These repurchases were made under the Company’s previously announced plan to utilize up to $100,000 to repurchase shares during 2016.

The Company frequently repurchases shares of its common stock to satisfy employee tax withholding obligations in association with certain share-based compensation awards. These repurchases, which are not part of a publicly announced plan or program, totaled 99,227 shares in the six months ended July 3, 2016 at a cost of $4,194, and 169,487 shares in the six months ended June 28, 2015 at a cost of $7,728.

Dividend Declarations

On April 20, 2016, the Board of Directors declared a regular quarterly dividend of $0.37 per share. This dividend was paid on June 10, 2016 to all shareholders of record as of May 13, 2016.

On July 20, 2016, the Board of Directors declared a regular quarterly dividend of $0.37 per share. This dividend is payable September 9, 2016 to all shareholders of record as of August 12, 2016.

Note 5: Restructuring and Asset Impairment

The Company has engaged in a number of restructuring actions over the past several years. Actions initiated in 2016 and 2015 are reported as “2016 Actions” and “2015 Actions,” respectively. Actions initiated prior to 2015, all of which were substantially complete at July 3, 2016, are reported as “2014 and Earlier Actions.”

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

	2016		2015	
	Second Quarter	Six Months	Second Quarter	Six Months
Restructuring/Asset impairment:				
2016 Actions	$19,632	$26,045	$—	$—
2015 Actions	3,508	6,274	8,760	7,909
2014 and Earlier Actions	138	187	1,685	2,177
Restructuring/Asset impairment charges	$23,278	$32,506	$10,445	$10,086
Income tax benefit	$(5,425)	(8,345)	$(3,683)	(15,276)
Costs attributable to noncontrolling interests, net of tax	(38)	(45)	(55)	(70)
Total impact of restructuring/asset impairment charges, net of tax	$17,815	$24,116	$6,707	$(5,260)

9

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

Pre-tax restructuring and asset impairment charges are included in “Restructuring/Asset impairment charges” in the Condensed Consolidated Statements of Income.

When recognizable in accordance with GAAP, the Company expects to recognize future additional charges totaling approximately $3,850 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 2016. The Company continually evaluates its cost structure, including its manufacturing capacity, and additional restructuring actions are likely to be undertaken.

2016 Actions

During 2016, the Company announced the closure of a packaging services center in Mexico (part of the Display and Packaging segment), a fulfillment service center in Brazil (part of the Display and Packaging segment), a tubes and cores plant in Ecuador (part of the Paper and Industrial Converted Products segment), and a tubes and cores plant in Switzerland (part of the Paper and Industrial Converted Products segment). The Company also began manufacturing rationalization efforts in its Reels division (part of the Paper and Industrial Converted Products segment), completed the sale of a paper mill in France (part of the Paper and Industrial Converted Products segment), and announced the planned sale of a retail security packaging plant in Puerto Rico (part of the Display and Packaging segment), which was subsequently completed on July 5, 2016. In addition, approximately 95 positions were eliminated in the first half of 2016 in conjunction with the Company's ongoing organizational effectiveness efforts.

Below is a summary of 2016 Actions and related expenses by segment and by type incurred and estimated to be incurred through completion.

2016 Actions	Second Quarter 2016	Total Incurred to Date	Estimated Total Cost
Severance and Termination Benefits			
Consumer Packaging	$487	$1,452	$ 1,702
Display and Packaging	1,277	2,653	3,403
Paper and Industrial Converted Products	1,730	$4,141	4,641
Protective Solutions	38	360	360
Corporate	10	1,439	1,439
Asset Impairment / Disposal of Assets			
Consumer Packaging	—	(306)	(306)
Display and Packaging	2,237	2,237	2,237
Paper and Industrial Converted Products	13,279	13,279	13,279
Other Costs			
Consumer Packaging	104	302	652
Display and Packaging	11	11	61
Paper and Industrial Converted Products	459	477	1,327
Total Charges and Adjustments	$19,632	$26,045	$ 28,795

The following table sets forth the activity in the 2016 Actions restructuring accrual included in “Accrued expenses and other” on the Company’s Condensed Consolidated Balance Sheets:

2016 Actions Accrual Activity 2016 Year to Date	Severance and Termination Benefits	Asset Impairment/ Disposal of Assets	Other Costs	Total
Liability at December 31, 2015	$ —	$ —	$—	$—
2016 charges	10,045	15,210	790	26,045
Cash payments	(6,220)	(7,322)	(472)	(14,014)
Asset write downs/disposals	—	(7,888)	—	(7,888)

Foreign currency translation	(6)	—	(4)	(10)
Liability at July 3, 2016	$ 3,819	$ —	$314	$4,133

10

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

Included in "Asset Impairment/Disposal of Assets" above is a loss of $12,694 from the sale of a paperboard mill in France in May 2016. Included in this loss was the divestiture of $8,436 of cash required in order to consummate the disposition with the acquiror. Other assets divested in connection with the sale included net fixed assets of $3,201, and other tangible assets, net of liabilities disposed, of $1,057. Also included in "Asset Impairment/Disposal of Assets" is the impairment of $1,947 of intangible assets related to the sale of a retail security packaging business in Puerto Rico, which was committed to during the second quarter and completed on July 5, 2016, subsequent to the end of the quarter.

"Other costs" consist primarily of costs related to plant closures including equipment removal, utilities, plant security, property taxes and insurance. The Company expects to pay the majority of the remaining 2016 Actions restructuring costs by the end of 2016 using cash generated from operations.

2015 Actions

During 2015, the Company initiated the following restructuring actions in its Consumer Packaging segment: the closure of six rigid paper facilities (two in the United States, one in Canada, one in Russia, one in Germany, and one in the United Kingdom); the closure of a production line at a thermoforming plant in the United States; and the sale of a portion of its metal ends and closures business in the United States. Restructuring actions initiated in the Paper and Industrial Converted Products segment include the closures of a tubes and cores plant and a recycling business in the United States. The Company also recognized an asset impairment charge related to the potential disposition of a paperboard mill in France. Restructuring actions initiated in the Display and Packaging segment consisted of the closure of a printed backer card facility in the United States. In addition, the Company continued to realign its cost structure, resulting in the elimination of approximately 235 positions.

Below is a summary of 2015 Actions and related expenses by segment and by type incurred and estimated to be incurred through completion.

2015 Actions	2016 Second Quarter	Six Months	2015 Second Quarter	Six Months	Total Incurred to Date	Estimated Total Cost
Severance and Termination Benefits						
Consumer Packaging	$1,044	$2,834	$2,266	$4,468	$17,881	$18,031
Display and Packaging	86	92	204	204	1,207	1,207
Paper and Industrial Converted Products	62	160	2,035	5,062	8,639	8,639
Protective Solutions	—	—	—	—	39	39
Corporate	—	—	1,033	2,200	2,775	2,775
Asset Impairment / Disposal of Assets						
Consumer Packaging	$1,784	1,774	2,502	(4,830)	(2,529)	(2,529)
Display and Packaging	335	335	17	17	809	809
Paper and Industrial Converted Products	—	—	219	221	10,198	10,198
Other Costs						
Consumer Packaging	$154	529	420	495	1,929	2,679
Display and Packaging	139	139	—	—	490	540
Paper and Industrial Converted Products	(96)	411	53	61	662	712
Corporate	—	—	11	11	11	11
Total Charges and Adjustments	$3,508	$6,274	$8,760	$7,909	$42,111	$43,111

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

The following table sets forth the activity in the 2015 Actions restructuring accrual included in "Accrued expenses and other" on the Company's Condensed Consolidated Balance Sheets:

2015 Actions Accrual Activity 2016 Year to Date	Severance and Termination Benefits	Asset Impairment/ Disposal of Assets	Other Costs	Total
Liability at December 31, 2015	$ 15,376	$ —	$ —	$15,376
2016 charges	3,161	2,119	1,242	6,522
Adjustments	(75)	(10)	(163)	(248)
Cash payments	(10,596)	10	(1,072)	(11,658)
Asset write downs/disposals	—	(2,119)	—	(2,119)
Foreign currency translation	(25)	—	5	(20)
Liability at July 3, 2016	$ 7,841	$ —	$ 12	$7,853

"Other costs" consist primarily of costs related to plant closures including equipment removal, utilities, plant security, property taxes and insurance. The Company expects to pay the majority of the remaining 2015 Actions restructuring costs by the end of 2016 using cash generated from operations.

2014 and Earlier Actions

2014 and Earlier Actions are comprised of a number of plant closures and workforce reductions initiated prior to 2015. Charges for these actions in both 2016 and 2015 relate primarily to the cost of plant closures including severance, equipment removal, plant security, property taxes and insurance.

The Company expects to recognize future pretax charges of approximately $100 associated with 2014 and Earlier Actions.

Below is a summary of expenses/(income) incurred by segment for 2014 and Earlier Actions for the three- and six-month periods ended July 3, 2016 and June 28, 2015.

2014 & Earlier Actions	2016 Second Quarter	Six Months	2015 Second Quarter	Six Months
Consumer Packaging	$—	$ —	$847	$879
Display and Packaging	—	—	(17)	(17)
Paper and Industrial Converted Products	55	53	667	1,032
Protective Solutions	83	134	188	283
Total Charges and Adjustments	$138	$ 187	$1,685	$2,177

The accrual for 2014 and Earlier Actions totaled $340 and $824 at July 3, 2016 and December 31, 2015, respectively, and is included in "Accrued expenses and other" on the Company's Condensed Consolidated Balance Sheets. The accrual relates primarily to environmental remediation costs at a former paper mill in the United States and unpaid severance. The Company expects the majority of the liability associated with 2014 and Earlier Actions to be paid by the end of 2016 using cash generated from operations.

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

Note 6: Accumulated Other Comprehensive Loss

The following table summarizes the components of accumulated other comprehensive loss and the changes in the balances of each component of accumulated other comprehensive loss, net of tax as applicable, for the six months ended July 3, 2016 and June 28, 2015:

	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Items	Foreign Currency Items	Accumulated Other Comprehensive Loss
Balance at December 31, 2015	$ (5,152)	$ (444,244)	$ (253,137)	$ (702,533)
Other comprehensive income/(loss) before reclassifications	2,121	(3,190)	13,439	12,370
Amounts reclassified from accumulated other comprehensive loss to net income	2,523	12,144	—	14,667
Amounts reclassified from accumulated other comprehensive loss to fixed assets	(22)	—	—	(22)
Net current-period other comprehensive income	4,622	8,954	13,439	27,015
Balance at July 3, 2016	$ (530)	$ (435,290)	$ (239,698)	$ (675,518)
Balance at December 31, 2014	$ (5,962)	$ (475,286)	$ (127,603)	$ (608,851)
Other comprehensive income/(loss) before reclassifications	(3,858)	(8,234)	(59,246)	(71,338)
Amounts reclassified from accumulated other comprehensive loss to net income	5,339	13,382	—	18,721
Amounts reclassified from accumulated other comprehensive loss to fixed assets	(237)	—	—	(237)
Net current-period other comprehensive income/(loss)	1,244	5,148	(59,246)	(52,854)
Balance at June 28, 2015	$ (4,718)	$ (470,138)	$ (186,849)	$ (661,705)

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

The following table summarizes the effects on net income of significant amounts classified out of each component of accumulated other comprehensive loss for the three- and six-month periods ended July 3, 2016 and June 28, 2015:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss				Affected Line Item in the Condensed Consolidated Statements of Net Income
	Three Months Ended		Six Months Ended		
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015	
Gains and losses on cash flow hedges					
Foreign exchange contracts	$(607)	$(4,201)	$(2,847)	$(8,289)	Net sales
Foreign exchange contracts	387	2,106	1,432	4,507	Cost of sales
Commodity contracts	(1,294)	(2,534)	(2,805)	(4,957)	Cost of sales
	(1,514)	(4,629)	(4,220)	(8,739)	Total before tax
	505	1,801	1,697	3,400	Tax benefit
	$(1,009)	$(2,828)	$(2,523)	$(5,339)	Net of tax
Defined benefit pension items					
Amortization of defined benefit pension items(a)	$(7,368)	$(8,427)	$(14,511)	$(15,872)	Cost of sales
Amortization of defined benefit pension items(a)	(2,456)	(2,809)	(4,837)	(5,290)	Selling, general and administrative
	(9,824)	(11,236)	(19,348)	(21,162)	Total before tax
	3,628	4,127	7,204	7,780	Tax benefit
	$(6,196)	$(7,109)	$(12,144)	$(13,382)	Net of tax
Total reclassifications for the period	$(7,205)	$(9,937)	$(14,667)	$(18,721)	Net of tax

(a) See Note 10 for additional details.

At July 3, 2016, the Company had commodity contracts outstanding to fix the costs of certain anticipated purchases of natural gas and aluminum, and foreign currency contracts to hedge certain anticipated foreign currency denominated sales and purchases. The amounts included in accumulated other comprehensive loss related to these cash flow hedges were net losses of $708 ($530 after tax) at July 3, 2016, and net losses of $8,036 ($5,152 after tax) at December 31, 2015.

The cumulative tax benefit on Cash Flow Hedges included in Accumulated Other Comprehensive Loss was $178 at July 3, 2016, and $2,884 at December 31, 2015. During the three- and six-month periods ended July 3, 2016, the tax benefit on Cash Flow Hedges changed by $(1,324) and $(2,706), respectively.

The cumulative tax benefit on Defined Benefit Pension Items was $242,802 at July 3, 2016, and $247,788 at December 31, 2015. During the three- and six-month periods ended July 3, 2016, the tax benefit on Defined Benefit Pension Items changed by $(1,423) and $(4,986), respectively.

During the three- and six-month periods ended July 3, 2016, changes in noncontrolling interests included foreign currency translation adjustments of $726 and $2,138, respectively.

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

Note 7: Goodwill and Other Intangible Assets
Goodwill
A summary of the changes in goodwill by segment for the six months ended July 3, 2016 is as follows:

	Consumer Packaging	Display and Packaging	Paper and Industrial Converted Products	Protective Solutions	Total
Goodwill at December 31, 2015	$487,342	$204,629	$227,325	$221,165	$1,140,461
Acquisitions	—	—	417	—	417
Foreign currency translation	8,337	—	2,412	—	10,749
Other	(71)	—	—	—	(71)
Goodwill at July 3, 2016	$495,608	$204,629	$230,154	$221,165	$1,151,556

In June 2016, the Company acquired a small tubes and cores business in Australia. In connection with this acquisition, the Company recognized $417 of Goodwill. See Note 3 for additional information.
The Company assesses goodwill for impairment annually and from time to time when warranted by the facts and circumstances surrounding individual reporting units or the Company as a whole. As part of this testing, the Company analyzes certain qualitative and quantitative factors in determining goodwill impairment. In its most recent annual assessment, completed in the third quarter of 2015, the Company concluded that there was no impairment of goodwill for any of its reporting units. The assessment reflected a number of significant management assumptions and estimates including the Company's forecast of sales volumes and prices, profit margins, income taxes, capital expenditures and changes in working capital requirements. Changes in these assumptions and/or discount rates could materially impact the Company's conclusions.
Although no reporting units failed the assessments noted above, in management's opinion, the reporting units having the greatest risk of a significant future impairment if actual results fall short of expectations are Display and Packaging, and Paper and Industrial Converted Products - Europe. Total goodwill associated with these reporting units was approximately $204,600 and $91,400, respectively, at July 3, 2016.
A large portion of sales in the Display and Packaging reporting unit is concentrated in one customer. Subsequent to the annual testing in the third quarter of 2015, this customer informed the Company of its decision not to renew a contract to continue operating a packaging center in Irapuato, Mexico. This triggering event resulted in a reassessment of the most recent annual impairment test for the Display and Packaging reporting unit completed as of the third quarter of 2015. Accordingly, the Company reperformed the impairment analysis for this reporting unit taking into consideration the effect on sales and operating profit of the lower business volume and concluded that goodwill in the Display and Packaging reporting unit was not impaired. The remaining business with this customer is currently under negotiations for contract renewal. If a significant amount of business were lost and not replaced under similar terms, it is likely that a goodwill impairment charge could be incurred. There have been no other triggering events identified between the most recent annual impairment test and July 3, 2016.

15

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

Other Intangible Assets

A summary of other intangible assets as of July 3, 2016 and December 31, 2015 is as follows:

	July 3, 2016	December 31, 2015
Other Intangible Assets, gross		
Patents	$12,858	$ 12,716
Customer lists	383,247	381,938
Trade names	19,260	19,246
Proprietary technology	17,744	17,738
Land use rights	298	297
Other	1,243	1,223
Other Intangible Assets, gross	$434,650	$ 433,158
Accumulated Amortization	$(204,948)	$ (188,063)
Other Intangible Assets, net	$229,702	$ 245,095

Other intangible assets are amortized on a straight-line basis over their respective useful lives, which generally range from three to forty years. The Company has no intangible assets with indefinite lives.

The Company recorded $297 of identifiable intangibles in connection with a 2016 acquisition, the majority of which related to a customer list. These intangibles will be amortized over their expected life of 10 years. See Note 3 for additional information. Also during 2016, the Company recognized the impairment of customer lists totaling $1,947 in connection with the sale of a retail security packaging business in Puerto Rico. See Note 5 for additional information.

Aggregate amortization expense was $8,231 and $8,174 for the three months ended July 3, 2016 and June 28, 2015, respectively, and $16,567 and $16,324, for the six months ended July 3, 2016 and June 28, 2015, respectively. Amortization expense on other intangible assets is expected to total approximately $32,400 in 2016, $31,600 in 2017, $30,800 in 2018, $29,400 in 2019 and $27,700 in 2020.

Note 8: Financial Instruments and Derivatives

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

	July 3, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, net of current portion	$1,029,943	$1,154,528	$1,015,270	$1,081,732

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 determined based on recent trade information in the financial markets of the Company's public debt or is determined by discounting future cash flows using interest rates available to the Company for issues with similar terms and maturities. It is considered a Level 2 fair value measurement.

Cash Flow Hedges

At July 3, 2016 and December 31, 2015, the Company had derivative financial instruments outstanding to hedge anticipated transactions and certain asset and liability related cash flows. These contracts, which have maturities ranging from July 2016 to December 2016, qualify as cash flow hedges under U.S. GAAP. 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. The Company has determined all hedges to be highly effective and as a result no material ineffectiveness has been recorded.

16

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

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 July 3, 2016, natural gas swaps covering approximately 8.3 MMBTUs were outstanding. These contracts represent approximately 75% and 75% of anticipated U.S. and Canadian usage for the remainder of 2016 and 2017, respectively. Additionally, the Company had swap contracts covering 2,228 metric tons of aluminum and 1,320 short tons of OCC, representing approximately 54% and 1% of anticipated usage for the remainder of 2016, respectively. The fair values of the Company's commodity cash flow hedges netted to a gain position of $960 at July 3, 2016 and a loss position of $(3,611) at December 31, 2015. The amount of the gain included in Accumulated Other Comprehensive Loss at July 3, 2016, that is expected to be reclassified to the income statement during the next twelve months is $207.

Foreign Currency Cash Flow Hedges

The Company has entered into forward contracts to hedge certain anticipated foreign currency denominated sales and purchases forecast to occur in 2016. The net positions of these contracts at July 3, 2016 were as follows (in thousands):

Currency	Action	Quantity
Colombian peso	purchase	3,413,426
Mexican peso	purchase	273,554
Canadian dollar	purchase	41,341
Russian ruble	purchase	8,846
British pound	purchase	4,615
Turkish lira	purchase	674
New Zealand dollar	sell	(313)
Australian dollar	sell	(1,018)
Polish zloty	sell	(1,501)
Euro	sell	(5,009)

The fair value of these foreign currency cash flow hedges netted to a loss position of $(1,421) at July 3, 2016 and $(4,612) at December 31, 2015. During the six months ended July 3, 2016, certain foreign currency cash flow hedges related to construction in progress were settled as the related capital expenditures were made. Losses from these hedges totaling $22 were reclassified from accumulated other comprehensive loss and included in the carrying value of the assets acquired. During the next twelve months, a loss of $(1,394) is expected to be reclassified from Accumulated Other Comprehensive Loss to the income statement.

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 ASC 815 for these instruments. As such, changes in fair value are recorded directly to income and expense in the periods that they occur.

The net positions of these contracts at July 3, 2016, were as follows (in thousands):

Currency	Action	Quantity
Colombian peso	purchase	32,120,961
Mexican peso	purchase	236,789
Canadian dollar	purchase	22,163
British pound	purchase	20,500
Euro	sell	(14,493)

The fair value of the Company's other derivatives was $(890) and $(2,180) at July 3, 2016 and December 31, 2015, respectively.

17

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

The following table sets forth the location and fair values of the Company's derivative instruments at July 3, 2016 and December 31, 2015:

Description	Balance Sheet Location	July 3, 2016	December 31, 2015
Derivatives designated as hedging instruments:			
Commodity Contracts	Prepaid expenses	$781	$ 8
Commodity Contracts	Other assets	$757	$ —
Commodity Contracts	Accrued expenses and other	$(576)	$ (3,425)
Commodity Contracts	Other liabilities	$(2)	$ (194)
Foreign Exchange Contracts	Prepaid expenses	$887	$ 156
Foreign Exchange Contracts	Accrued expenses and other	$(2,308)	$ (4,768)
Derivatives not designated as hedging instruments:			
Foreign Exchange Contracts	Prepaid expenses	$32	$ 50
Foreign Exchange Contracts	Accrued expenses and other	$(922)	$ (2,230)

While certain of the Company's derivative contract arrangements with its counterparties provide for the ability to settle contracts on a net basis, the Company reports its derivative positions on a gross basis. There are no collateral arrangements or requirements in these agreements.

The following tables set forth the effect of the Company's derivative instruments on financial performance for the three months ended July 3, 2016 and June 28, 2015:

Description	Amount of Gain or (Loss) Recognized in OCI on Derivatives (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 Derivatives (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion)
Derivatives in Cash Flow Hedging Relationships:					
Three months ended July 3, 2016					
Foreign Exchange Contracts	$ (797)	Net sales	$ (607)	Net sales	$ —
		Cost of sales	$ 387		
Commodity Contracts	$ 3,249	Cost of sales	$ (1,294)	Cost of sales	$ (108)
Three months ended June 28, 2015					
Foreign Exchange Contracts	$ 530	Net sales	$ (4,201)	Net sales	$ —
		Cost of sales	$ 2,106		
Commodity Contracts	$ (1,242)	Cost of sales	$ (2,534)	Cost of sales	$ 70

Description	Location of Gain or (Loss) Recognized in Income Statement	Gain or (Loss) Recognized

Derivatives not Designated as Hedging Instruments:		
Three months ended July 3, 2016		
Foreign Exchange Contracts	Cost of sales	$ —
	Selling, general and administrative	$ 1,352
Three months ended June 28, 2015		
Foreign Exchange Contracts	Cost of sales	$ —
	Selling, general and administrative	$ 1,293

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

The following tables set forth the effect of the Company's derivative instruments on financial performance for the six months ended July 3, 2016 and June 28, 2015:

Description	Amount of Gain or (Loss) Recognized in OCI on Derivatives (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 Derivatives (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion)
Derivatives in Cash Flow Hedging Relationships:					
Six months ended July 3, 2016					
Foreign Exchange Contracts	$ 1,570	Net sales	$ (2,847)	Net sales	$ —
		Cost of sales	$ 1,432		
Commodity Contracts	$ 1,516	Cost of sales	$ (2,805)	Cost of sales	$ 2
Six months ended June 28, 2015					
Foreign Exchange Contracts	$ (3,791)	Net sales	$ (8,289)	Net sales	$ —
		Cost of sales	$ 4,507		
Commodity Contracts	$ (3,352)	Cost of sales	$ (4,957)	Cost of sales	$ 110

Description	Location of Gain or (Loss) Recognized in Income Statement	Gain or (Loss) Recognized
Derivatives not Designated as Hedging Instruments:		
Six months ended July 3, 2016		
Foreign Exchange Contracts	Cost of sales	$ —
	Selling, general and administrative	$ 1,116
Six months ended June 28, 2015		
Foreign Exchange Contracts	Cost of sales	$ —
	Selling, general and administrative	$ 761

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

Note 9: Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

Level 1 – Observable inputs such as quoted market prices in active markets;
Level 2 – Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
Level 3 – Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table sets forth information regarding the Company’s financial assets and financial liabilities, excluding retirement and postretirement plan assets, measured at fair value on a recurring basis:

Description	July 3, 2016	Level 1	Level 2	Level 3
Hedge derivatives, net:				
Commodity contracts	$ 960	$ —	$ 960	$ —
Foreign exchange contracts	(1,421)	—	(1,421)	—
Non-hedge derivatives, net:				
Foreign exchange contracts	(890)	—	(890)	—
Deferred compensation plan assets	477	477	—	—

Description	December 31, 2015	Level 1	Level 2	Level 3
Hedge derivatives, net:				
Commodity contracts	$ (3,611)	$ —	$ (3,611)	$ —
Foreign exchange contracts	(4,612)	—	(4,612)	—
Non-hedge derivatives, net:				
Foreign exchange contracts	(2,180)	—	(2,180)	—
Deferred compensation plan assets	460	460	—	—

As discussed in Note 8, the Company uses derivatives to mitigate the effect of raw material and energy cost fluctuations, foreign currency fluctuations and, from time to time, interest rate movements. Fair value measurements for the Company’s derivatives are classified under Level 2 because such measurements are 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 by assets invested in various exchange traded mutual funds. These assets are measured using quoted prices in accessible active markets for identical assets.

The Company does not currently have any nonfinancial assets or liabilities that are recognized or disclosed at fair value on a recurring basis. None of the Company’s financial assets or liabilities is measured at fair value using significant unobservable inputs. There were no transfers in or out of Level 1 or Level 2 fair value measurements during the three- and six-month periods ended July 3, 2016.

20

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

Note 10: 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. The Company also sponsors contributory defined benefit pension plans covering the majority of its employees in the United Kingdom, Canada, and the Netherlands. In addition, the Company provides postretirement healthcare and life insurance benefits to a limited number of its retirees and their dependents in the United States and Canada, based on certain age and/or service eligibility requirements.

The Company froze participation in its U.S. qualified defined benefit pension plan effective December 31, 2003 for newly hired salaried and non-union hourly employees. At that time, the Company adopted a defined contribution plan, the Sonoco Investment and Retirement Plan (SIRP), covering its non-union U.S. employees hired on or after January 1, 2004, and former participants of the U.S. qualified defined benefit pension plan who elected to transfer out of that plan and into the SIRP under a one-time option effective January 1, 2010. On January 1, 2013, the SIRP was merged into the Sonoco Savings Plan and the name was changed to the Sonoco Retirement and Savings Plan. The Company provides an annual contribution to participant accounts in the Sonoco Retirement and Savings Plan, called the Sonoco Retirement Contribution (SRC), equal to 4% of the participant's eligible pay plus 4% of eligible pay in excess of the social security wage base.

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. Remaining active participants in the U.S. qualified plan will become eligible for SRC contributions effective January 1, 2019.

The components of net periodic benefit cost include the following:

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Retirement Plans				
Service cost	$4,799	$6,088	$9,822	$11,341
Interest cost	14,984	17,829	30,310	34,762
Expected return on plan assets	(21,388)	(23,527)	(43,432)	(46,253)
Amortization of net transition obligation	—	41	—	81
Amortization of prior service cost	188	187	381	367
Amortization of net actuarial loss	9,960	11,105	19,556	20,833
Net periodic benefit cost	$8,543	$11,723	$16,637	$21,131
Retiree Health and Life Insurance Plans				
Service cost	$71	$206	$156	$384
Interest cost	114	225	244	447
Expected return on plan assets	(394)	(414)	(798)	(807)
Amortization of prior service credit	(124)	(26)	(252)	(51)
Amortization of net actuarial gain	(200)	(63)	(337)	(68)
Net periodic benefit income	$(533)	$(72)	$(987)	$(95)

The Company made aggregate contributions of $22,295 and $12,253 to its defined benefit retirement and retiree health and life insurance plans during the six months ended July 3, 2016 and June 28, 2015, respectively. The Company anticipates that it will make additional aggregate contributions of approximately $10,300 to its defined benefit retirement and retiree health and life insurance plans over the remainder of 2016.

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

Sonoco Retirement Contribution (SRC)
The Sonoco Retirement Contribution, which is funded annually in the first quarter, totaled $13,352 during the six months ended July 3, 2016, and $12,865 during the six months ended June 28, 2015. No additional SRC contributions are expected during the remainder of 2016. The Company recognized expense related to the SRC of $3,577 and $3,302 for the quarters ended July 3, 2016 and June 28, 2015, respectively, and $6,595 and $6,929 for the six-month periods ended July 3, 2016 and June 28, 2015, respectively.

Note 11: Income Taxes
The Company's effective tax rate for the three- and six-month periods ending July 3, 2016, was 31.5% and 32.4%, respectively, and its effective tax rate for the three- and six-month periods ending June 28, 2015, was 28.1% and 25.6%, respectively. The rates for the three- and six-month periods of both years varied from the U.S. statutory rate due to the favorable effect of certain international operations that are subject to tax rates generally lower than the U.S. rate, the favorable effect of the manufacturer's deduction on U.S. taxes, and the effect of changes in uncertain tax positions. The effective tax rates for the three- and six-month periods ended June 28, 2015 were further reduced by the recognition of beneficial tax attributes associated with the disposition of the Company's Canton, Ohio metal ends and closures facilities.
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 2012. With respect to state and local income taxes, the Company is no longer subject to examination for years prior to 2011, with few exceptions. The Company is currently under audit by the Internal Revenue Service for the 2012 and 2013 tax years.
The Company's total liability for uncertain tax benefits has not changed significantly since December 31, 2015. The Company has $2,400 of reserves for uncertain tax benefits for which it believes it is reasonably possible that a resolution may be reached within the next twelve months. Although the Company's estimate for the potential outcome for any uncertain tax issue is highly judgmental, management believes that any reasonably foreseeable outcomes related to these matters have been adequately provided for. However, future results may include favorable or unfavorable adjustments to estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire. Additionally, the jurisdictions in which earnings or deductions are realized may differ from current estimates. As a result, the Company's effective tax rate may fluctuate significantly on a quarterly basis. The Company has operations and pays taxes in many countries outside of the U.S. and taxes on those earnings are subject to varying rates. The Company is not dependent upon the favorable benefit of any one jurisdiction to an extent that loss of those benefits would have a material effect on the Company's overall effective tax rate.

Note 12: Segment Reporting
The Company reports its financial results in four reportable segments: Consumer Packaging, Display and Packaging, Paper and Industrial Converted Products, and Protective Solutions.
The Consumer Packaging segment includes the following products and services: round and shaped rigid containers and trays (both composite and thermoformed plastic); blow-molded plastic bottles and jars; extruded and injection-molded plastic products; printed flexible packaging; global brand artwork management; and metal and peelable membrane ends and closures.
The Display and Packaging segment includes the following products and services: designing, manufacturing, assembling, packing and distributing temporary, semipermanent and permanent point-of-purchase displays; supply chain management services, including contract packing, fulfillment and scalable service centers; retail packaging, including printed backer cards, thermoformed blisters and heat sealing equipment; and paper amenities, such as coasters and glass covers.

The Paper and Industrial Converted Products segment includes the following products: paperboard tubes and cores; fiber-based construction tubes and forms; wooden, metal and composite wire and cable reels and spools; and recycled paperboard, linerboard, corrugating medium, recovered paper and material recycling services.

The Protective Solutions segment includes the following products: custom-engineered, paperboard-based and expanded foam protective packaging and components; and temperature-assured packaging.

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

The following table sets forth net sales, intersegment sales and operating profit for the Company’s reportable segments. “Segment operating profit” is defined as the segment’s portion of “Income before interest and income taxes” excluding restructuring charges, asset impairment charges, acquisition-related costs, and certain other items, if any, the exclusion of which the Company believes improves comparability and analysis of the financial performance of the business. General corporate expenses have been allocated as operating costs to each of the Company’s reportable segments. "Other, net" for the six months ended June 28, 2015 is largely comprised of a $32,543 gain from the reversal of environmental liability reserves related to the Fox River environmental claims.

SEGMENT FINANCIAL INFORMATION

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Net sales:				
Consumer Packaging	$511,007	$531,114	$1,038,345	$1,050,991
Display and Packaging	130,874	141,604	275,141	287,389
Paper and Industrial Converted Products	433,342	448,876	856,416	871,187
Protective Solutions	130,457	126,996	262,054	245,075
Consolidated	$1,205,680	$1,248,590	$2,431,956	$2,454,642
Intersegment sales:				
Consumer Packaging	$1,596	$1,321	$2,928	$3,001
Display and Packaging	626	451	1,123	848
Paper and Industrial Converted Products	23,536	25,038	49,917	52,589
Protective Solutions	286	457	872	1,065
Consolidated	$26,044	$27,267	$54,840	$57,503
Income before interest and income taxes:				
Segment operating profit:				
Consumer Packaging	$59,509	$57,530	$122,374	$111,558
Display and Packaging	5,030	1,035	8,311	1,873
Paper and Industrial Converted Products	37,480	38,963	70,779	66,760
Protective Solutions	14,220	13,604	26,246	23,289
Restructuring/Asset impairment charges	(23,278)	(10,445)	(32,506)	(10,086)
Other, net	(837)	(1,703)	(1,248)	29,674
Consolidated	$92,124	$98,984	$193,956	$223,068

Note 13: Commitments and Contingencies

Pursuant to U.S. GAAP, accruals for estimated losses are recorded at the time information becomes available indicating that losses are probable and that the amounts are reasonably estimable. As is the case with other companies in similar industries, the Company faces exposure from actual or potential claims and legal proceedings from a variety of sources. Some of these exposures, as discussed below, have the potential to be material.

Environmental Matters

The Company is subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which it operates.

Fox River settlement and remaining claim

In March 2014, U.S. Paper Mills Corp. (U.S. Mills), a wholly owned subsidiary of the Company, and five other defendants reached a settlement with the United States Environmental Protection Agency (EPA) and the Wisconsin Department of Natural Resources (WDNR) for natural resource damages and the environmental cleanup of the lower Fox River in Wisconsin. The terms of the settlement, which became final on April 7, 2015, required U.S. Mills to pay $14,700, which was paid in April 2014, and protects U.S. Mills from claims by other parties relating to natural resource damages and the cleanup of the lower Fox River, except claims pursuant to Section 107 of the Comprehensive Environment Response, Compensation and Liability Act (CERCLA).

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

The finalization of the settlement leaves intact a claim by Appvion, Inc., under Section 107 of CERCLA against eight defendants, including U.S. Mills, to recover response costs allegedly incurred by Appvion consistent with the national contingency plan for responding to release or threatened release of hazardous substances into the lower Fox River. The claim is asserted for approximately $200,000. Although the Company believes that the maximum amount for which the defendants could be liable is substantially less, the court has not yet ruled on the issue.

At December 31, 2015, U.S. Mills had reserves totaling $3,896 for potential liabilities associated with the Appvion claim. Through July 3, 2016, the Company has spent approximately $580 on legal costs related to this claim, leaving a reserve of $3,316 remaining at July 3, 2016. The actual costs that may be incurred associated with the Appvion claim are dependent upon many factors and it is possible that costs could ultimately be higher than the amount provided for in the remaining reserve. Because of the continuing uncertainties surrounding U.S. Mills' possible liability, including a potentially favorable resolution, the Company cannot currently estimate its potential liability, damages or range of potential loss, if any, beyond the amounts reserved, and an adverse resolution of these matters could have an adverse effect on the Company's financial position, results of operations and/or cash flows. The Company believes that the maximum additional exposure to its consolidated financial position beyond the amount reserved at is limited to the equity position of U.S. Mills, which was approximately $127,500 at July 3, 2016.

Tegrant

On November 8, 2011, the Company completed the acquisition of Tegrant. During its due diligence, the Company identified several potential environmentally contaminated sites. The total remediation cost of these sites was estimated to be $18,850 at the time of acquisition and an accrual in this amount was recorded on Tegrant’s opening balance sheet. Since the acquisition, the Company has spent a total of $774 on remediation of these sites. During 2014 and 2015, the Company increased its reserves for these sites by a total of $392 in order to reflect its best estimate of what it is likely to pay in order to complete the remediation. At July 3, 2016 and December 31, 2015, the Company's accrual for Tegrant's environmental contingencies totaled $18,468 and $18,521, respectively. The Company cannot currently estimate its potential liability, damages or range of potential loss, if any, beyond the amounts accrued with respect to this exposure. However, the Company does not believe that the resolution of this matter has a reasonable possibility of having a material adverse effect on the Company's financial statements.

Village of Rockton

The previously disclosed actions instituted by the Village of Rockton against the Company on September 15, 2014, were dismissed with prejudice by stipulation of the parties on April 19, 2016, with no impact to the Company’s financial statements.

Other environmental matters

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. However, the Company does not believe that the resolution of these matters has a reasonable possibility of having a material adverse effect on the Company's financial statements.

Summary

As of July 3, 2016 and December 31, 2015, the Company (and its subsidiaries) had accrued $24,542 and $25,195, respectively, related to environmental contingencies. These accruals are included in “Accrued expenses and other” on the Company’s Condensed Consolidated Balance Sheets.

Other Legal Matters

In addition to those matters described above, the Company is subject to other various legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters could differ from management’s expectations, the Company does not believe the resolution of these matters has a reasonable possibility of having a material adverse effect on the Company’s financial statements.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Directors of Sonoco Products Company:

We have reviewed the accompanying condensed consolidated balance sheet of Sonoco Products Company and its subsidiaries (the "Company") as of July 3, 2016, and the related condensed consolidated statements of income and comprehensive income for the three and six-month periods ended July 3, 2016 and June 28, 2015 and the condensed consolidated statement of cash flows for the six-month periods ended July 3, 2016 and June 28, 2015. These interim financial statements are the responsibility of the Company’s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of income, of comprehensive income, of changes in total equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 29, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2015, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 2 to the accompanying condensed consolidated interim financial statements, the Company changed its method of accounting for Debt Issuance Costs in the six-month period ended July 3, 2016. The accompanying December 31, 2015 condensed consolidated balance sheet reflects this change.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina
August 3, 2016

SONOCO PRODUCTS COMPANY

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Statements included in this Quarterly Report on Form 10-Q that are not historical in nature, are intended to be, and are hereby identified as “forward-looking statements” for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. In addition, the Company and its representatives may from time to time make other oral or written statements that are also "forward-looking statements." Words such as “estimate,” “project,” “intend,” “expect,” “believe,” “consider,” “plan,” “strategy,” “opportunity,” "commitment," “target,” “anticipate,” “objective,” “guidance,” “outlook,” “forecast,” “future,” "re-envision," "assume,"“will,” “would,” "can," "could," "may," "might," “aspires, "potential," or the negative thereof, and similar expressions identify forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding:

- availability and supply of raw materials, and offsetting high raw material costs;
- improved productivity and cost containment;
- improving margins and leveraging strong cash flow and financial position;
- effects of acquisitions and dispositions;
- realization of synergies resulting from acquisitions;
- costs, timing and effects of restructuring activities;
- adequacy and anticipated amounts and uses of cash flows;
- expected amounts of capital spending;
- refinancing and repayment of debt;
- financial strategies and the results expected of them;
- financial results for future periods;
- producing improvements in earnings;
- profitable sales growth and rates of growth;
- market leadership;
- research and development spending;
- extent of, and adequacy of provisions for, environmental liabilities;
- adequacy of income tax provisions, realization of deferred tax assets, outcomes of uncertain tax issues and tax rates;
- goodwill impairment charges and fair values of reporting units;
- future asset impairment charges and fair values of assets;
- anticipated contributions to pension and postretirement benefit plans, fair values of plan assets, long-term rates of return on plan assets, and projected benefit obligations and payments;
- creation of long-term value and returns for shareholders;
- continued payment of dividends; and
- planned stock repurchases.

Such forward-looking statements are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management. Such information includes, without limitation, discussions as to guidance and other estimates, perceived opportunities, expectations, beliefs, plans, strategies, goals and objectives concerning our future financial and operating performance. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed or forecasted in such forward-looking statements. The risks, uncertainties and assumptions include, without limitation:

- availability and pricing of raw materials, energy and transportation, and the Company's ability to pass raw material, energy and transportation price increases and surcharges through to customers or otherwise manage these commodity pricing risks;
- costs of labor;
- work stoppages due to labor disputes;

- success of new product development, introduction and sales;
- consumer demand for products and changing consumer preferences;
- ability to be the low-cost global leader in customer-preferred packaging solutions within targeted segments;
- competitive pressures, including new product development, industry overcapacity, and changes in competitors' pricing for products;

26

- ability to maintain or increase productivity levels, contain or reduce costs, and maintain positive price/cost relationships;
- ability to negotiate or retain contracts with customers, including in segments with concentration of sales volume;
- ability to improve margins and leverage cash flows and financial position;
- continued strength of our paperboard-based tubes and cores and composite can operations;
- ability to manage the mix of business to take advantage of growing markets while reducing cyclical effects of some of the Company's existing businesses on operating results;
- ability to maintain innovative technological market leadership and a reputation for quality;
- ability to profitably maintain and grow existing domestic and international business and market share;
- ability to expand geographically and win profitable new business;
- ability to identify and successfully close suitable acquisitions at the levels needed to meet growth targets, and successfully integrate newly acquired businesses into the Company's operations;
- the costs, timing and results of restructuring activities;
- availability of credit to us, our customers and suppliers in needed amounts and on reasonable terms;
- effects of our indebtedness on our cash flow and business activities;
- fluctuations in obligations and earnings of pension and postretirement benefit plans;
- accuracy of assumptions underlying projections of benefit plan obligations and payments, valuation of plan assets, and projections of long-term rates of return;
- cost of employee and retiree medical, health and life insurance benefits;
- resolution of income tax contingencies;
- foreign currency exchange rate fluctuations, interest rate and commodity price risk and the effectiveness of related hedges;
- changes in U.S. and foreign tax rates, and tax laws, regulations and interpretations thereof;
- accuracy in valuation of deferred tax assets;
- accuracy of assumptions underlying projections related to goodwill impairment testing, and accuracy of management's assessment of goodwill impairment;
- accuracy of assumptions underlying fair value measurements, accuracy of management's assessments of fair value and fluctuations in fair value;
- liability for and anticipated costs of environmental remediation actions;
- effects of environmental laws and regulations;
- operational disruptions at our major facilities;
- failure or disruptions in our information technologies;
- loss of consumer or investor confidence;
- ability to protect our intellectual property rights;
- actions of domestic or foreign government agencies and changes in laws and regulations affecting the Company;
- international, national and local economic and market conditions and levels of unemployment; and
- economic disruptions resulting from terrorist activities and natural disasters.

More information about the risks, uncertainties and assumptions that may cause actual results to differ materially from those expressed or forecasted in forward-looking statements is provided in the Company's Annual Report on Form 10-K under Item 1A - "Risk Factors" and throughout other sections of that report and in other reports filed with the Securities and Exchange Commission. In light of these various risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

The Company undertakes no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise. You are, however, advised to review any further disclosures we make on related subjects, and about new or additional risks, uncertainties and assumptions, in our future filings with the Securities and Exchange Commission on Forms 10-K, 10-Q and 8-K.

SONOCO PRODUCTS COMPANY

COMPANY OVERVIEW

Sonoco is a leading provider of consumer packaging, industrial products, protective packaging and packaging supply chain services, with approximately 330 locations in 34 countries.

Sonoco competes in multiple product categories, with its operations organized and reported in four segments: Consumer Packaging, Display and Packaging, Paper and Industrial Converted Products, and Protective Solutions. The majority of the Company's revenues are from products and services sold to consumer and industrial products companies for use in the packaging of their products for sale or shipment. The Company also manufactures paperboard, primarily from recycled materials, for both internal use and open market sale. Each of the Company's operating units has its own sales staff and maintains direct sales relationships with its customers.

Second Quarter 2016 Compared with Second Quarter 2015

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES

Measures calculated and presented in accordance with generally accepted accounting principles are referred to as GAAP financial measures. The following tables reconcile the Company's non-GAAP financial measures to their most directly comparable GAAP financial measures in the Company's Condensed Consolidated Statements of Income for each of the periods presented. These non-GAAP financial measures (referred to as "Base") are the GAAP measures adjusted to exclude (dependent upon the applicable period) restructuring charges, asset impairment charges, acquisition charges, specifically identified tax adjustments and certain other items, if any, the exclusion of which the Company believes improves comparability and analysis of the underlying financial performance of the business. More information about the Company's use of Non-GAAP financial measures is provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 under Item 7 - "Management's discussion and analysis of financial condition and results of operations," under the heading "Use of non-GAAP financial measures."

	For the three months ended July 3, 2016			
Dollars in thousands, except per share data	GAAP	Restructuring/ Asset Impairment	Other Adjustments[1]	Base
Income before interest and income taxes	$92,124	$ 23,278	$ 837	$116,239
Interest expense, net	13,544	—	—	13,544
Income before income taxes	78,580	23,278	837	102,695
Provision for income taxes	24,790	5,425	233	30,448
Income before equity in earnings of affiliates	53,790	17,853	604	72,247
Equity in earnings of affiliates, net of tax	2,928	—	—	2,928
Net income	56,718	17,853	604	75,175
Net (income) attributable to noncontrolling interests	(466)	(38)	—	(504)
Net income attributable to Sonoco	$56,252	$ 17,815	$ 604	$74,671
Per diluted common share	$0.55	$ 0.17	$ 0.01	$0.73

[1]Consists primarily of acquisition-related costs.

	For the three months ended June 28, 2015			
Dollars in thousands, except per share data	GAAP	Restructuring/ Asset Impairment	Other Adjustments [1]	Base
Income before interest and income taxes	$98,984	$ 10,445	$ 1,703	$111,132
Interest expense, net	13,601	—	—	13,601
Income before income taxes	85,383	10,445	1,703	97,531
Provision for income taxes	24,023	3,683	3,282	30,988
Income before equity in earnings of affiliates	61,360	6,762	(1,579)	66,543
Equity in earnings of affiliates, net of tax	3,269	—	—	3,269
Net income	64,629	6,762	(1,579)	69,812

Net (income) attributable to noncontrolling interests	(250)	(55)	—	(305)
Net income attributable to Sonoco	$64,379	$ 6,707	$ (1,579)	$69,507
Per diluted common share	$0.63	$ 0.07	$ (0.02)	$0.68

SONOCO PRODUCTS COMPANY

[1] Consists primarily of acquisition-related costs and an income tax gain from the release of a valuation allowance against tax loss carryforwards in Spain.

RESULTS OF OPERATIONS

The following discussion provides a review of results for the three months ended July 3, 2016 versus the three months ended June 28, 2015.

OVERVIEW

Net sales for the second quarter of 2016 decreased 3.4% to $1,206 million, compared with $1,249 million in the same period last year. The decline in sales was the result of lower selling prices, driven by decreases in recovered paper and resin costs, the previously disclosed loss of contract packaging business in Irapuato, Mexico, and the negative impact of foreign currency translation. These negative factors were somewhat offset by positive changes in volume and mix of products sold.

Net income attributable to Sonoco for the second quarter of 2016 decreased 12.6% to $56.3 million, compared to $64.4 million reported for the same period of 2015. Current quarter net income includes after-tax restructuring and asset impairment charges of $17.8 million and after-tax acquisition charges of $0.6 million. Results for the second quarter of 2015 include after-tax restructuring and asset impairment charges of $6.7 million, and a net after-tax gain from other adjustments of $1.6 million. These other adjustments consisted primarily of acquisition-related costs and a $3.2 million income tax gain resulting from the release of a valuation allowance against tax loss carryforwards in Spain. Adjusted for these items, base net income attributable to Sonoco (base earnings) increased 7.4% to $74.7 million ($0.73 per diluted share) in the second quarter of 2016 versus $69.5 million ($0.68 per diluted share) in 2015.

The higher second quarter 2016 base earnings were largely driven by improvements in both the Consumer Packaging and Display and Packaging segments. Overall, the current quarter benefited from a positive price/cost relationship, lower pension and postretirement benefit costs, and a lower effective tax rate on earnings absent the above items. These gains were partially offset by higher labor, maintenance and other operating costs, and the negative impact of foreign currency translation due to a stronger U.S. dollar. Current-quarter earnings reflect an 82 basis point increase in the Company's overall gross profit margin compared to the prior year's quarter, largely due to the overall favorable price/cost relationship.

OPERATING REVENUE

Net sales for the second quarter of 2016 decreased $43 million from the prior-year quarter.

The components of the sales change were:

	($ in millions)		
Volume/mix	$	9	
Selling prices	(11		)
Acquisitions and Divestitures	1		
Foreign currency translation and other, net	(42		)
Total sales decrease	$	(43	)

In order to enhance the meaningfulness of reported changes in volume/mix, a $15.9 million reduction in packaging center sales resulting from changes in the level of activity, primarily from the previously reported loss of contract packaging business in Irapuato, Mexico, is classified above as "other" due to the low/inconsistent correlation that typically exists between changes in revenue and operating profit in our packaging center operations.

COSTS AND EXPENSES

A positive price/cost relationship (the relationship of the change in sales prices to the change in costs of materials, energy and freight), which was due to costs decreasing more than selling prices, lower pension expense, and modest productivity improvements benefited gross margin, but were partially offset by higher maintenance, labor, and other costs. The translation impact of a stronger dollar lowered reported cost of goods sold by approximately $16 million compared to the

SONOCO PRODUCTS COMPANY

second quarter of 2015. The gross profit margin percentage improved to 20.1% this quarter compared to 19.2% in the prior-year quarter.

Second-quarter selling, general and administrative ("SG&A") costs decreased $4.3 million, or 3.3%, from the prior year quarter reflecting lower pension and post-retirement benefit costs, fixed cost reductions, and the impact of foreign currency translation. These positive factors were partially offset by higher wages and management incentive costs.

Current quarter restructuring and restructuring-related asset impairment charges totaled $23.3 million compared with $10.4 million in the same period last year. Charges in the current quarter include a loss from the May 23, 2016 sale of the Company's paperboard mill in Schweighouse-sur-Moder, France and asset impairment charges related to the sale of the Company's display and packaging business in Juncos, Puerto Rico, that occurred on July 5, 2016. Additional charges in the current quarter are primarily related to the Company's ongoing organizational effectiveness efforts and plant closure costs. Charges in the prior year's second quarter were more than offset by the benefit from a release of a valuation allowance against tax loss carryforwards in Spain. Additional information regarding restructuring and asset impairment charges is provided in Note 5 to the Company’s Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Net interest expense for the second quarter decreased slightly to $13.5 million, compared with $13.6 million during the second quarter of 2015. The small decrease was due to lower year-over-year debt levels.

The effective tax rate on GAAP and base earnings in the second quarter of 2016 was 31.5% and 29.6%, respectively, compared with 28.1% and 31.8%, respectively, for last year's quarter. The main driver of the year-over-year increase in the GAAP income tax rate is the loss on the sale of the paperboard mill in France for which there was no tax benefit. The year-over-year decrease in the second-quarter base income tax rate was primarily driven by a current-year favorable tax audit resolution and favorable changes in uncertain tax positions in the 2016 quarter.

REPORTABLE SEGMENTS

The following table recaps net sales for the second quarters of 2016 and 2015 ($ in thousands):

	Three Months Ended		
	July 3, 2016	June 28, 2015	% Change
Net sales:			
Consumer Packaging	$511,007	$531,114	(3.8)%
Display and Packaging	130,874	141,604	(7.6)%
Paper and Industrial Converted Products	433,342	448,876	(3.5)%
Protective Solutions	130,457	126,996	2.7 %
Consolidated	$1,205,680	$1,248,590	(3.4)%

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

	Three Months Ended		
	July 3, 2016	June 28, 2015	% Change
Income before interest and income taxes:			
Segment operating profit			
Consumer Packaging	$59,509	$57,530	3.4 %
Display and Packaging	5,030	1,035	386.0 %
Paper and Industrial Converted Products	37,480	38,963	(3.8)%
Protective Solutions	14,220	13,604	4.5 %
Restructuring/Asset impairment charges	(23,278)	(10,445)	122.9 %
Other, net	(837)	(1,703)	
Consolidated	$92,124	$98,984	(6.9)%

30

SONOCO PRODUCTS COMPANY

The following table recaps restructuring/asset impairment charges attributable to each of the Company's segments during the second quarters of 2016 and 2015 ($ in thousands):

	Three Months Ended	
	July 3, 2016	June 28, 2015
Restructuring/Asset impairment charges:		
Consumer Packaging	$3,573	$ 6,035
Display and Packaging	4,085	203