

BITSTREAM INC  
Form 10-Q  
November 14, 2002

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended September 30, 2002

or

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

For the transition period from            to

COMMISSION FILE NUMBER: 0-21541

**BITSTREAM INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of incorporation or organization)

**04-2744890**

(I.R.S. Employer Identification No.)

**215 First Street**

**Cambridge, Massachusetts**

(Address of principal executive offices)

**02142**

(Zip Code)

**(617) 497-6222**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

On November 8, 2002 there were 8,475,125 shares of Class A Common Stock, par value \$0.01 per share, of which 125,809 were designated as treasury shares, and no shares of Class B Common Stock, par value \$0.01 per share, outstanding.

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**BITSTREAM INC. AND SUBSIDIARIES**

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## BITSTREAM INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)

	September 30, 2002	December 31, 2001
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,979	\$ 5,716
Accounts receivable, net of allowance of \$34 and \$53 at September 30, 2002 and December 31, 2001, respectively	536	679
Prepaid expenses and other current assets	107	122
Total current assets	5,622	6,517
Property and equipment, net	315	473
Other assets:		
Restricted cash	300	300
Goodwill	727	727
Investment in DiamondSoft, Inc.	646	599
Intangible assets	243	218
Other assets	5	5
Total other assets	1,921	1,849
Total assets	\$ 7,858	\$ 8,839
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 253	\$ 93
Accrued expenses	1,086	1,126
Current portion of deferred revenue	580	610
Total current liabilities	1,919	1,829
Long-term deferred revenue	10	14
Total liabilities	1,929	1,843
Stockholders' equity :		
Common stock, \$0.01 par value		
Authorized - 30,500 shares		
Issued and outstanding- 8,475 at September 30, 2002 and 8,428 at December 31, 2001	85	84
Additional paid-in capital	32,411	32,383
Accumulated deficit	(26,207)	(25,111)
Treasury stock, at cost; 126 shares as of September 30, 2002 and December 31, 2001	(360)	(360)
Total stockholders' equity	5,929	6,996
Total liabilities and stockholders' equity	\$ 7,858	\$ 8,839

**The accompanying notes are an integral part of these consolidated financial statements.**

## BITSTREAM INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
<b>Revenue:</b>				
Software licenses	\$ 1,588	\$ 1,818	\$ 5,373	\$ 4,787
Services	259	296	820	826
Total revenue	1,847	2,114	6,193	5,613
<b>Cost of revenue:</b>				
Software licenses	430	348	1,238	816
Services	104	124	298	300
Cost of revenue	534	472	1,536	1,116
Gross profit	1,313	1,642	4,657	4,497
<b>Operating expenses:</b>				
Marketing and selling	572	645	1,699	2,201
Research and development	1,077	1,191	3,027	3,784
General and administrative	298	511	1,059	1,344
Total operating expenses	1,947	2,347	5,785	7,329
Operating loss	(634)	(705)	(1,128)	(2,832)
Gain (Loss) on investment in DiamondSoft, Inc.	5	(68)	47	(219)
Interest income, net	18	47	60	198
Loss before provision for income taxes	(611)	(726)	(1,021)	(2,853)
Provision for income taxes	5	59	75	139
Net loss	\$ (616)	\$ (785)	\$ (1,096)	\$ (2,992)
Basic and diluted net loss per share	\$ (0.07)	\$ (0.10)	\$ (0.13)	\$ (0.37)
Basic and diluted weighted average shares outstanding	8,335	8,075	8,318	8,019

The accompanying notes are an integral part of these consolidated financial statements.

**BITSTREAM INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(IN THOUSANDS)**

	For the Nine Months Ended September 30,	
	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,096)	\$ (2,992)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	240	280
Amortization	53	391
Stock based compensation	(24)	5
(Gain) Loss on investment in DiamondSoft, Inc.	(47)	219
Changes in operating assets and liabilities:		
Accounts receivable	143	975
Prepaid expenses and other assets	15	127
Accounts payable	160	81
Accrued expenses	(40)	(51)
Deferred revenue	(34)	164
Net cash used in operating activities	(630)	(801)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment, net	(82)	(180)
Additions to intangible assets	(78)	(146)
Investment in DiamondSoft, Inc.		(250)
Net cash used in investing activities	(160)	(576)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the exercise of stock options/warrants	53	231
Net cash provided by financing activities	53	231
Net Decrease in Cash and Cash Equivalents	(737)	(1,146)
Cash and Cash Equivalents, beginning of period	5,716	7,149
Cash and Cash Equivalents, end of period	\$ 4,979	\$ 6,003
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	\$ 50	\$ 188

The accompanying notes are an integral part of these consolidated financial statements.





**BITSTREAM INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2002**

**(1) Significant Accounting Policies**

Bitstream Inc. ( Bitstream ) together with its subsidiaries (collectively, the Company ), headquartered in Cambridge, Massachusetts, is composed of three separate and distinct businesses: (1) its type and technology ( Type ) business, which generates revenue primarily from the licensing of font rendering software and fonts to the embedded, set-top box, wireless device and information appliance markets; (2) MyFonts.com, a wholly owned subsidiary that was formed in late 1999 as the first e-commerce site to aggregate fonts from multiple vendors on one easy-to-use Web site ( MyFonts ); and (3) Pageflex, Inc., a wholly owned subsidiary that was formed in early 1999 to establish the Company as a leader in dynamic page composition technologies ( Pageflex ).

**(a) Basis of Presentation**

The consolidated financial statements of the Company presented herein, without audit, have been prepared pursuant to the rules of the Securities and Exchange Commission (the SEC ) for quarterly reports on Form 10-Q and do not include all of the information and footnote disclosures required by generally accepted accounting principles. The balance sheet information at December 31, 2001 has been derived from the Company s audited consolidated financial statements. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2001 included in the Company s Annual Report on Form 10-K, which was filed by the Company with the SEC on March 29, 2002.

The balance sheet as of September 30, 2002, the statements of operations for the three and nine months ended September 30, 2002 and 2001, the statements of cash flows for the nine months ended September 30, 2002 and 2001, and the notes to each are unaudited, but in the opinion of management include all adjustments necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows of the Company for these interim periods.

The results of operations for the three and nine months ended September 30, 2002 may not necessarily be indicative of the results to be expected for the year ending December 31, 2002.

**(b) Off-Balance Sheet Risk and Concentration of Credit Risk**

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company places a majority of its cash investments in one highly-rated financial institution. The Company has not experienced significant losses related to receivables from any individual customers or groups of customers in any specific industry or by geographic area. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be inherent in the Company s accounts receivable. At September 30, 2002, three customers accounted for 22%, 18% and 11%, respectively, of the

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Company's accounts receivable. The Company does not have any off-balance sheet risks as of September 30, 2002. At December 31, 2001, two customers accounted for 18% and 17%, respectively, of the Company's accounts receivable.

For the three months and nine months ended September 30, 2002 and 2001, no single customer accounted for 10% or more of the Company's consolidated revenue. For the three months ended September 30, 2002, three customers of the Company's Type segment accounted for 17%, 12% and 10%, respectively, of the revenue for that segment, one customer of the Pageflex segment accounted for 10% of the revenue for that segment and no customers accounted for 10% or more of the MyFonts segment's revenue. For the three months ended September 30, 2001, two customers of the Company's Type segment accounted for 24% and 10%, respectively, of the revenue for that segment, one customer of the Pageflex segment accounted for 13% of the revenue for that segment, and no customers accounted for 10% or more of the MyFonts segment. For the nine months ended September 30, 2002, two customers of the Company's Type segment accounted for 10% each of the revenue for that segment, and no customers accounted for 10% or more of the Pageflex or MyFonts segments' revenue. For the nine months ended September 30, 2001, one customer of the Type segment accounted for 10% of the revenue for that segment, and no customers accounted for 10% or more of revenue for the Pageflex or MyFonts segments.

**(c) Goodwill and other intangible assets (in thousands, except per share amounts)**

Goodwill is stated at the unamortized cost as of December 31, 2001, less impairment adjustments if applicable, and consists of the following:

	September 30, 2002	December 31, 2001
Acquisition of Type Solutions, Inc.	\$ 228	\$ 228
Acquisition of Alaras Corporation	499	499
Goodwill	727	727
Embedded goodwill from equity investment in DiamondSoft, Inc. (Note 3)	557	557
<b>Total Goodwill</b>	<b>\$ 1,284</b>	<b>\$ 1,284</b>

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. The Company adopted SFAS No. 142, effective January 1, 2002, which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized, but are required to be reviewed annually for impairment, or more frequently if impairment indicators arise. Separable intangible assets that have finite lives will continue to be amortized over their useful lives. In addition, under the new pronouncement, the Company is required to establish reporting units and allocate goodwill to each of these reporting units. The Company has established the following reporting units: Type, MyFonts, and Pageflex.

The Company ceased all goodwill amortization effective January 1, 2002. In addition, the Company tested recorded goodwill attributable to each reporting unit for impairment. Management completed the initial impairment testing as of January 1, 2002 and determined that the fair value of its reporting units were greater than the carrying values for those units. The Company has recorded goodwill embedded in its equity investment in DiamondSoft, Inc. of \$557 as of September 30, 2002 and December 31, 2001, which is not attributable to a reporting unit.

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The carrying amounts of goodwill attributable to each reporting unit are as follows:

	September 30, 2002		December 31, 2001	
Type	\$	228	\$	228
MyFonts				
Pageflex		499		499
	\$	727	\$	727

Had the Company applied the non-amortization provisions of SFAS No. 142 as of January 1, 2001, results of operations for the three months and nine months ended September 30, 2002 and 2001, would have been as follows (in thousands, except per share amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
Reported net loss	\$ (616)	\$ (785)	\$ (1,096)	\$ (2,992)
Add:				
Goodwill amortization, net of tax		145		432
Adjusted net loss	\$ (616)	\$ (640)	\$ (1,096)	\$ (2,560)
Basic and diluted loss per share as reported	\$ (0.07)	\$ (0.10)	\$ (0.13)	\$ (0.37)
Basic and diluted pro forma loss per share	\$ (0.07)	\$ (0.08)	\$ (0.13)	\$ (0.32)

In connection with its adoption of SFAS 142, the Company reassessed the useful lives and the classification of its identifiable intangible assets and determined that they continue to be appropriate. The components of the Company's amortized intangible assets follow:

	September 30, 2002		December 31, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Marketing-related	\$ 76	\$ (37)	\$ 70	\$ (27)
Technology-based	361	(157)	289	(114)
Total	\$ 437	\$ (194)	\$ 359	\$ (141)

Amortization expense for intangible assets for the three months and nine months ended September 30, 2002 was \$19 and \$53, respectively. Amortization expense for finite-lived intangibles for the year ended December 31, 2001 was \$59. Estimated amortization for the remainder of 2002 and the five succeeding years follows:

	Estimated Amortization Expense
2002 (remainder)	\$ 19
2003	73
2004	67
2005	51
2006	27
2007	6
	\$ 243

**(d) Recently Issued Accounting Standards**

In June 2002, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal use of the asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company does not expect SFAS No. 143 to have a material impact on its financial position or results of operations upon its adoption on January 1, 2003.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which supercedes EITF 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. The provisions of this Statement are required to be adopted for exit or disposal activities that are initiated after December 31, 2002. Under this standard, a liability for a cost associated with an exit or disposal activity formerly recognized upon the entity's commitment to an exit plan is now recognized when the liability is incurred. The Company does not expect SFAS No. 146 to have a material impact on its financial position or results of operations upon its adoption on January 1, 2003.

(2) **Loss Per Share (in thousands)**

Basic earnings or loss per share is determined by dividing the net loss by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflect the effect of the conversion of potentially dilutive securities, such as stock options, based on the treasury stock method. In computing diluted earnings per share, common stock equivalents are not considered in periods in which a net loss is reported, as the inclusion of the common stock equivalents would be antidilutive. As a result there is no difference between the Company's basic and diluted loss per share for the three and nine month periods ended September 30, 2002 and 2001.

If the Company had reported a profit for these periods, the potential common shares would have increased the weighted average shares outstanding by 573 and 1,262 shares for the three months ended September 30, 2002 and 2001, respectively, and by 1,120 and 993 for the nine months ended September 30, 2002 and 2001, respectively. In addition, there were warrants and options outstanding to purchase 1,082 and 884 shares for the three months and nine months ended September 30, 2002, respectively, and 262 and 278 shares for the three months and nine months ended September 30, 2001 that were not included in the potential common share computations because their exercise prices were greater than the market price of the Company's common stock. These common stock equivalents are antidilutive even when a profit is reported in the numerator.

(3) **Investment (in thousands, except percentages)**

On March 13, 1998, the Company made a \$500 or 25% equity investment, accounted for under the equity method, in DiamondSoft, Inc. (DiamondSoft), a California corporation primarily engaged in the business of developing, marketing and distributing software tools to a variety of professional markets. During the year ended December 31, 2001 the Company made additional investments totaling \$410 in DiamondSoft, resulting in an increase in Bitstream's ownership percentage to 31.7% at December 31, 2001, which remained unchanged as of September 30, 2002.

Gains (losses) for the three months and nine months ended September 30, 2002, and 2001 related to the Company's investment in DiamondSoft totaled approximately \$5 and \$47, and \$(68) and \$(219), respectively, and are included in the accompanying consolidated statements of operations. The Company has recorded goodwill related to this investment equal to the difference between the amount paid for the investment and the Company's share of DiamondSoft's underlying net assets at the time of each investment. Losses for the three months and nine months ended September 30, 2001 included \$28 and \$80, respectively, in amortization. This goodwill amortization ceased in accordance with the Company's adoption of SFAS No. 142 on January 1, 2002. (See Note 1(c))

On June 19, 2000, the Company deposited \$300 into a money market account at Wells Fargo Bank to secure a \$300 line of credit granted DiamondSoft by that bank. This cash, which continues to secure the line of credit, is presented on the Company's consolidated balance sheet as restricted cash.

**(4) Accrued Expenses, (in thousands)**

Accrued expenses consist of the following:

	September 30, 2002	December 31, 2001
Accrued royalties	\$ 208	\$ 226
Payroll and other compensation	634	510
Accrued professional and consulting services	158	197
Other	86	193
<b>Total</b>	<b>\$ 1,086</b>	<b>\$ 1,126</b>

**(5) Segment Reporting (in thousands):**

The Company has determined it has three reportable segments: (i) its Type segment; (ii) its Pageflex segment and (iii) its MyFonts segment. The Company's reportable segments are strategic business units that sell the Company's products through distinct distribution channels. They are managed separately as each business requires different marketing strategies. The Company's approach is based on the way that management organizes the segments within the enterprise for making operating decisions and assessing performance. Revenue from the MyFonts segment includes revenue from products it purchases from the Type segment. Inter-segment revenue of \$82 and \$249 for the three months and nine months ended September 30, 2002, respectively, and \$54 and \$132 for the three months and nine months ended September 30, 2001, respectively, have been eliminated from MyFonts segmented revenue below, as well as from the Company's consolidated financial statements. The Company evaluates performance based on profit or loss from operations before income taxes, not including non-recurring gains and losses.

The following table sets forth the Company's revenue and income (loss) from operations by segment:

	For the Three months ended September 30,		For the Nine months ended September 30,	
	2002	2001	2002	2001
<b>Revenue (from external customers):</b>				
Type	\$ 1,035	\$ 1,414	\$ 3,437	\$ 3,767
MyFonts	394	144	987	337
Pageflex	418	556	1,769	1,509
Consolidated revenue	\$ 1,847	\$ 2,114	\$ 6,193	\$ 5,613
<b>Segment (loss) income from operations:</b>				
Type	\$ (76)	\$ 248	\$ 15	\$ 64
MyFonts	(82)	(690)	(273)	(584)
Pageflex	(476)	(263)	(870)	(2,312)
Consolidated loss from operations	\$ (634)	\$ (705)	\$ (1,128)	\$ (2,832)





**(6) Geographical Reporting (in thousands):**

The Company attributes revenues to different geographical areas on the basis of the location of the customer. All of the Company's product sales for the three months and nine months ended September 30, 2002 and 2001 were shipped from its headquarters located in the United States or its office located in Cheltenham, England. Revenues by geographic area are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenue:				
United States	\$ 992	\$ 1,078	\$ 3,866	\$ 2,914
Japan	225	221	708	796
United Kingdom	173	142	373	425
Canada	199		414	296
Korea		374		432
Other (Countries less than 5%)	258	299	832	750
			\$ 284,085	\$ 304,600

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 intangibles with indefinite lives. Aggregate amortization expense was \$6,945 and \$3,568 for the three months ended September 30, 2012 and October 2, 2011, respectively, and \$21,122 and \$10,919 for the nine months ended September 30, 2012 and October 2, 2011, respectively. Amortization expense on other intangible assets is expected to approximate \$28,400 in 2012, \$28,300 in 2013, \$27,900 in 2014, \$26,400 in 2015 and \$26,100 in 2016.

**Note 7: Financial Instruments and Derivatives**

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

	September 30, 2012		December 31, 2011	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
Long-term debt, net of current portion	\$ 1,204,105	\$ 1,338,421	\$ 1,232,966	\$ 1,282,727

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 trade information in the financial markets of the Company's public debt and is considered a Level 2 fair value instrument.

**Cash Flow Hedges**

At September 30, 2012 and December 31, 2011, 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, aluminum and old corrugated containers. At September 30, 2012, natural gas swaps covering approximately 8.7 million MMBTUs were outstanding. These contracts represent approximately 83%, 73% and 38% of anticipated U.S. and Canadian usage for the remainder of 2012, 2013 and 2014, respectively. Additionally, the Company had swap contracts covering 3,911 metric tons of aluminum representing

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(Dollars in thousands except per share data)

(unaudited)

approximately 63% of anticipated usage for the remainder of 2012 and 24% for 2013, and 14,625 short tons of old corrugated containers representing approximately 3% of anticipated usage for 2012. The fair values of the Company's commodity cash flow hedges were in loss positions of \$(6,373) and \$(13,989) at September 30, 2012 and December 31, 2011, respectively. The amount of the loss included in accumulated other comprehensive loss at September 30, 2012, that is expected to be reclassified to the income statement during the next twelve months is \$(4,562).

*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 2012. The net positions of these contracts at September 30, 2012 were as follows (in thousands):

<b><u>Currency</u></b>	<b><u>Action</u></b>	<b><u>Quantity</u></b>
Colombian peso	purchase	3,846,580
Mexican peso	purchase	186,246
Canadian dollar	purchase	18,745
Euro	purchase	3,413
Turkish lira	purchase	2,178
British pound	purchase	1,663
Polish zloty	purchase	1,153
New Zealand dollar	sell	(459)
Australian dollar	sell	(678)
Russian ruble	sell	(2,443)

The fair value of these foreign currency cash flow hedges was \$1,061 and \$608 at September 30, 2012 and December 31, 2011, respectively. During the first nine months of 2012, certain foreign currency cash flow hedges related to construction in progress were settled as the related capital expenditures were made. A loss of \$(9) and a loss of \$(26) were reclassified from accumulated other comprehensive loss and netted against the carrying value of assets during the three- and nine-month periods ending September 30, 2012, respectively. The amount of the gain included in accumulated other comprehensive loss at September 30, 2012 expected to be reclassified to the income statement during the next twelve months is \$904.

*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 September 30, 2012 were as follows (in thousands):

<b><u>Currency</u></b>	<b><u>Action</u></b>	<b><u>Quantity</u></b>
Euro	purchase	19,395
Canadian dollar	purchase	5,438
British pound	purchase	517
Colombian peso	sell	(6,507,202)

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The fair value of the Company's other derivatives was \$(438) and \$(746) at September 30, 2012 and December 31, 2011, respectively.

The Company has determined all hedges to be highly effective and as a result no material ineffectiveness has been recorded.

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(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 September 30, 2012 and December 31, 2011:

<b>Description</b>	<b>Balance Sheet Location</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Derivatives designated as hedging instruments:			
Commodity Contracts	Prepaid expenses	\$ 882	\$
Commodity Contracts	Other assets	\$ 96	\$
Commodity Contracts	Accrued expenses and other	\$ (5,226)	\$ (10,234)
Commodity Contracts	Other liabilities	\$ (2,125)	\$ (3,755)
Foreign Exchange Contracts	Prepaid expenses	\$ 1,525	\$ 1,097
Foreign Exchange Contracts	Accrued expenses and other	\$ (464)	\$ (489)
Derivatives not designated as hedging instruments:			
Foreign Exchange Contracts	Prepaid expenses	\$ 89	\$ 2
Foreign Exchange Contracts	Accrued expenses and other	\$ (508)	\$ (748)
Foreign Exchange Contracts	Other liabilities	\$ (19)	\$

The following tables set forth the effect of the Company's derivative instruments on financial performance for the three months ended September 30, 2012 and October 2, 2011:

<b>Description</b>	<b>Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)</b>	<b>Location of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)</b>	<b>Amount of Gain or (Loss) Recognized</b>	
			<b>from Accumulated OCI Into Income (Effective Portion)</b>	<b>Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)</b>
<b>Three months ended September 30, 2012</b>				
<b>Derivatives in Cash Flow Hedging Relationships:</b>				
Foreign Exchange Contracts	\$ 1,252	Net sales	\$ 512	Net sales
		Cost of sales	\$ 744	
Commodity Contracts	\$ 2,247	Cost of sales	\$ (2,927)	Cost of sales
				\$ 94
<b>Three months ended October 2, 2011</b>				
<b>Derivatives in Cash Flow Hedging Relationships:</b>				
Foreign Exchange Contracts	\$ (3,964)	Net sales	\$ (354)	Net sales
		Cost of sales	\$ (468)	
Commodity Contracts	\$ (2,325)	Cost of sales	\$ (1,910)	Cost of sales
				\$ 40
<b>Derivatives not designated as hedging instruments:</b>		<b>Location of Gain or (Loss) Recognized in Income</b>	<b>Gain or (Loss) Recognized</b>	

**Statement**

**Three months ended September 30, 2012**

Foreign Exchange Contracts	Cost of sales	\$ (466)
	Selling, general and administrative	\$ (9)

**Three months ended October 2, 2011**

Foreign Exchange Contracts	Cost of sales	\$ (1,551)
	Selling, general and administrative	\$ (187)

**Table of Contents****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 nine months ended September 30, 2012 and October 2, 2011:

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) Recognized	
			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)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
<b><u>Nine months ended September 30, 2012</u></b>				
<b>Derivatives in Cash Flow Hedging Relationships:</b>				
Foreign Exchange Contracts				
	\$ 2,683	Net sales	\$ 306	Net sales
		Cost of sales	\$ 2,048	
Commodity Contracts				
	\$ (2,098)	Cost of sales	\$ (9,599)	Cost of sales
				\$ 94
<b><u>Nine months ended October 2, 2011</u></b>				
<b>Derivatives in Cash Flow Hedging Relationships:</b>				
Foreign Exchange Contracts				
	\$ (672)	Net sales	\$ 2,439	Net sales
		Cost of sales	\$ (1,985)	
Commodity Contracts				
	\$ (3,852)	Cost of sales	\$ (7,937)	Cost of sales
				\$ 152
<b>Derivatives not designated as hedging instruments:</b>				
		<b>Location of Gain or (Loss) Recognized in Income Statement</b>	<b>Gain or (Loss) Recognized</b>	
<b><u>Nine months ended September 30, 2012</u></b>				
Foreign Exchange Contracts				
		Cost of sales	\$ 278	
		Selling, general and administrative	\$ 30	
<b><u>Nine months ended October 2, 2011</u></b>				
		Cost of sales	\$ (283)	



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Foreign Exchange  
Contracts

Selling, general and  
administrative \$ (169)

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

(Dollars in thousands except per share data)

(unaudited)

**Note 8: 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 in 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:

<b>Description</b>	<b>September 30, 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Hedge derivatives, net:				
Commodity contracts	\$(6,373)	\$	\$(6,373)	\$
Foreign exchange contracts	1,061		1,061	
Non-hedge derivatives, net:				
Foreign exchange contracts	(438)		(438)	
Deferred compensation plan assets	2,590	2,590		

<b>Description</b>	<b>December 31, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Hedge derivatives, net:				
Commodity contracts	\$(13,989)	\$	\$(13,989)	\$
Foreign exchange contracts	608		608	
Non-hedge derivatives, net:				
Foreign exchange contracts	(746)		(746)	
Deferred compensation plan assets	2,279	2,279		

As discussed in Note 7, 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 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 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

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out of Level 1 or Level 2 fair value measurements during the three- or nine-month periods ended September 30, 2012.

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(Dollars in thousands except per share data)

(unaudited)

**Note 9: Employee Benefit Plans**  
**Retirement Plans and Retiree Health and Life Insurance Plans**

The Company provides non-contributory defined benefit pension plans for a majority of its employees in the United States and certain of its employees in Mexico and Belgium. Effective December 31, 2003, the Company froze participation for newly hired salaried and non-union hourly U.S. employees in its traditional defined benefit 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. Remaining active participants in the U.S. qualified plan will become participants of the SIRP effective January 1, 2019.

The Company also 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 components of net periodic benefit cost include the following:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
<b>Retirement Plans</b>				
Service cost	\$ 6,391	\$ 5,236	\$ 17,804	\$ 15,353
Interest cost	17,906	18,125	52,430	53,480
Expected return on plan assets	(20,890)	(20,977)	(62,889)	(63,359)
Amortization of net transition obligation	115	116	344	353
Amortization of prior service cost	139	144	308	215
Amortization of net actuarial loss	10,525	6,414	28,722	18,183
Net periodic benefit cost	\$ 14,186	\$ 9,058	\$ 36,719	\$ 24,225
<b>Retiree Health and Life Insurance Plans</b>				
Service cost	\$ 131	\$ 164	\$ 615	\$ 766
Interest cost	154	342	841	1,193
Expected return on plan assets	(391)	(383)	(1,131)	(1,090)
Amortization of prior service credit	(1,619)	(1,998)	(4,872)	(5,940)
Amortization of net actuarial loss	(403)	2	(2)	699
Net periodic benefit income	\$ (2,128)	\$ (1,873)	\$ (4,549)	\$ (4,372)

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The Company made contributions of \$55,160 and \$115,123 to its defined benefit retirement and retiree health and life insurance plans during the nine months ended September 30, 2012 and October 2, 2011, respectively. The Company anticipates that it will make additional contributions of approximately \$8,200 to its defined benefit retirement and retiree health and life insurance plans in 2012.

### ***Sonoco Investment and Retirement Plan (SIRP)***

The Company recognized SIRP expense totaling \$2,692 and \$2,489 for the quarters ended September 30, 2012 and October 2, 2011, respectively, and \$7,637 and \$7,026 for the nine month periods ended September 30, 2012 and October 2, 2011, respectively. Contributions to the SIRP, funded annually in the first quarter, totaled \$8,920 during the nine months ended September 30, 2012, and \$8,568 during the nine months ended October 2, 2011. No additional SIRP contributions are expected during the remainder of 2012.

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**SONOCO PRODUCTS COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

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**Note 10: Income Taxes**

The Company's effective tax rate for the three-and nine-month periods ending September 30, 2012, was 31.2% and 33.5%, respectively, and its effective tax rate for the three and nine-month periods ending October 2, 2011 was 3.1% and 22.2%, respectively. The quarterly and year-to-date rates for both years varied from the U.S. statutory rate primarily due to the favorable effect of international operations that are subject to tax rates generally lower than the U.S. rate, the favorable effect of the manufacturer's deduction, and contingencies recorded for uncertain tax positions. The quarterly and year-to-date rates for 2011 also varied from the U.S. statutory rate due to an \$18,848 net benefit from deferred tax valuation allowance adjustments on foreign jurisdiction net operating losses. In addition, to a much lesser extent, the prior year's rate reflected the positive impact of non-taxable life insurance proceeds and the net release of reserves for uncertain tax positions.

The Company and/or its subsidiaries file federal, state and local income tax returns in the United States and various foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examination by tax authorities for years before 2009. With few exceptions, the Company is no longer subject to examination prior to 2007 with respect to U.S. state and local and non-U.S. income taxes.

There have been no significant changes in the Company's liability for uncertain tax positions since December 31, 2011. 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.

**Note 11: New Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This update eliminated the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and provided the entity with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The update also included a requirement for an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. This reclassification requirement, however, was subsequently deferred by ASU No. 2011-12. The Company selected the two statement approach and has included the additional statement in this Quarterly Report on Form 10-Q.

During the nine months ended September 30, 2012, there have been no other newly issued nor newly applicable accounting pronouncements that have or are expected to have a significant impact on the Company's financial statements.

**Note 12: Segment Reporting**

The Company modified its reportable segments in the fourth quarter of 2011 as the result of changes in our business and related internal management reporting to better reflect its mix of business following the November 2011 acquisition of Tegrant. The Company now reports its financial results in the following four reportable segments: the Consumer Packaging segment, the Paper and Industrial Converted Products segment, the Packaging Services segment, and the Protective Packaging segment.

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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; metal and peelable membrane ends and closures; and global brand artwork management.

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

(Dollars in thousands except per share data)

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The Paper and Industrial Converted Products segment includes the following products: high-performance paper and composite paperboard tubes and cores; fiber-based construction tubes and forms; wooden, metal and composite wire and cable reels and spools; and recycled paperboard, linerboard, corrugated medium, recovered paper and other recycled materials.

The Packaging Services 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; and paper amenities, such as coasters and glass covers.

The Protective Packaging segment includes the following products: custom-designed paperboard-based and expanded foam protective packaging; temperature-assurance packaging; and retail security packaging.

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

**FINANCIAL SEGMENT INFORMATION**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
<b>Net sales:</b>				
Consumer Packaging	\$ 475,946	\$ 503,370	\$ 1,448,750	\$ 1,492,257
Paper and Industrial Converted Products	453,605	484,066	1,392,675	1,440,436
Packaging Services	124,561	112,939	347,267	362,310
Protective Packaging	141,418	23,796	421,567	74,356
Consolidated	\$ 1,195,530	\$ 1,124,171	\$ 3,610,259	\$ 3,369,359
<b>Intersegment sales:</b>				
Consumer Packaging	\$ 2,096	\$ 1,769	\$ 6,209	\$ 3,964
Paper and Industrial Converted Products	23,126	26,341	73,779	79,845
Packaging Services	516	346	1,694	967
Protective Packaging	457	119	1,465	776
Consolidated	\$ 26,195	\$ 28,575	\$ 83,147	\$ 85,552



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Income before interest and income taxes:				
Operating Profit				
Consumer Packaging	\$ 43,829	\$ 52,363	\$ 136,661	\$ 143,713
Paper and Industrial				
Converted Products	33,150	38,027	105,106	108,780
Packaging Services	5,098	4,807	13,969	20,020
Protective Packaging	10,645	3,362	29,303	10,025
Restructuring/Asset impairment charges	444	(12,048)	(24,164)	(23,943)
Other, net	3,177	(1,743)	2,903	(1,994)
Consolidated	\$ 96,343	\$ 84,768	\$ 263,778	\$ 256,601

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**SONOCO PRODUCTS COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

**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.

***Environmental Matters***

The Company is subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which it operates. 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, as discussed below, have the potential to be material.

During the fourth quarter of 2005, the U.S. Environmental Protection Agency (EPA) notified U.S. Paper Mills Corp. (U.S. Mills), a wholly owned subsidiary of the Company, that U.S. Mills and NCR Corporation (NCR), an unrelated party, would be jointly held responsible to undertake a program to remove and dispose of certain PCB-contaminated sediments at a particular site on the lower Fox River in Wisconsin (the Site) which is now labeled by the EPA as Phase 1. U.S. Mills and NCR reached an agreement between themselves that each would fund 50% of the costs of remediation. The Company has expensed a total of \$17,650 for its estimated share of the total cleanup cost of the Site, and through September 30, 2012, has spent a total of \$14,467. The remaining accrual of \$3,183 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 the Site are dependent upon many factors and it is possible that remediation costs could be higher than the current estimate of project costs. The Company acquired U.S. Mills in 2001, and the alleged contamination predates the acquisition.

The EPA and Wisconsin Department of Natural Resources (WDNR) have also 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. A detailed description of the claims and proceedings associated therewith appears in Part II Item 8 Financial Statements and Supplementary Data (Note 14 - Commitments and Contingencies) in the Company's Annual Report on Form 10-K.

On October 14, 2010, the EPA and WDNR filed suit against NCR, API, U.S. Mills and nine other defendants in the United States District Court for the Eastern District of Wisconsin (No. 10-CV-00910-WCG) pursuant to Sections 106 and 107 of CERCLA. The plaintiffs seek to recover unreimbursed costs incurred for activities undertaken in response to the release and threatened release of hazardous substances from facilities at or near the Lower Fox River and Green Bay as well as damages for injury to, loss of, and destruction of natural resources resulting from such releases. The plaintiffs also seek a ruling that the defendants are liable for future response costs of the plaintiffs and requiring the defendants to comply with the unilateral Administrative Order for Remedial Action discussed in prior filings. The Company does not believe that the remedies sought in the suit materially expand the Company's potential liability beyond what has been disclosed in this report or in the Company's prior filings with the SEC. U.S. Mills plans to defend the suit vigorously.

Since 2007, U.S. Mills has expensed a total of \$60,825 for potential liabilities associated with the Fox River contamination (not including amounts expensed for remediation at the Site) and through September 30, 2012, has spent a total of \$8,560, primarily on legal fees, leaving a reserve of \$52,265 remaining at September 30,

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**SONOCO PRODUCTS COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

2012 for potential liabilities associated with the Fox River contamination (not including amounts accrued for remediation at the Site). Because of the continuing uncertainties in the estimated costs of remediation and continuing uncertainties surrounding U.S. Mills' allocable share, including a potentially favorable resolution, it is impossible to state with any reasonable degree of confidence that any estimate is a better estimate than the amount recorded. 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 \$90,000 at September 30, 2012.

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 is estimated to be \$18,850 and an accrual in this amount was recorded on Tegrant's opening balance sheet.

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

As of September 30, 2012 and December 31, 2011, the Company (and its subsidiaries) had accrued \$76,944 and \$78,590, respectively, related to environmental contingencies. Of these, a total of \$55,448 and \$56,768 relate to U.S. Mills and \$18,743 and \$18,846 relate to Tegrant at September 30, 2012 and December 31, 2011, respectively. These accruals are included in Accrued expenses and other on the Company's Consolidated Balance Sheets. U.S. Mills recognized a \$40,825 benefit in 2008 from settlements reached and proceeds received on certain insurance policies covering the Fox River contamination. U.S. Mills' two remaining insurance carriers are in liquidation. It is possible that U.S. Mills may recover from these carriers a small portion of the costs it ultimately incurs. U.S. Mills may also be able to reallocate some of the costs it incurs among other parties. There can be no assurance that such claims for recovery or reallocation would be successful and no amounts have been recognized in the consolidated financial statements of the Company for such potential recovery or reallocation.

***Other Legal Matters***

The Company was named as a defendant in a class action by persons who bought Company stock between February 7, 2007 and September 18, 2007. The complaint, as amended, alleged that the Company issued press releases and made public statements during the class period that were materially false and misleading. The complaint was seeking an unspecified amount of damages plus interest and attorneys' fees. On April 26, 2012, the parties filed with the court a stipulation of settlement, which subsequently has been approved by the court and, subject to the conditions contained therein, ends the litigation. The settlement was funded entirely by insurance.

In addition to those matters described above, the Company is subject to various other 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.

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and Directors of Sonoco Products Company:

We have reviewed the accompanying condensed consolidated balance sheet of Sonoco Products Company as of September 30, 2012, and the related condensed consolidated statements of income and comprehensive income for the three and nine month periods ended September 30, 2012 and October 2, 2011 and the condensed consolidated statements of cash flows for the nine month periods ended September 30, 2012 and October 2, 2011. 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, 2011, 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, 2012, 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, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/PricewaterhouseCoopers LLP

Charlotte, North Carolina  
November 1, 2012

**Table of Contents****SONOCO PRODUCTS COMPANY****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Statements included in this report that are not historical in nature, are intended to be, and are hereby identified as forward-looking statements for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. The words estimate, project, intend, expect, believe, consider, plan, strategy, opportunity, target, anticipate, objective, goal, guidance, outlook, forecasts, future, will, would, or the negative thereof, and similar expressions identify forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding offsetting high raw material costs; improved productivity and cost containment; adequacy of income tax provisions; refinancing of debt; realization of synergies resulting from acquisitions; adequacy of cash flows; anticipated amounts and uses of cash flows; effects of acquisitions and dispositions; adequacy of provisions for environmental liabilities; financial strategies and the results expected from them; sales growth; continued payments of dividends; stock repurchases; producing improvements in earnings; financial results for future periods; goodwill impairment charges; expected amounts of capital spending; anticipated contributions to benefit plans; and creation of long-term value for shareholders. Such forward-looking statements are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management. Such information includes, without limitation, discussions as to guidance and other estimates, expectations, beliefs, plans, strategies and objectives concerning our future financial and operating performance. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed or forecasted in such forward-looking statements. The risks and uncertainties include, without limitation:

Availability and pricing of raw materials;  
 Success of new product development and introduction;  
 Ability to maintain or increase productivity levels and contain or reduce costs;  
 Ability to manage the mix of business to take advantage of growing markets while reducing cyclical effects of some of the Company's existing business on operating results;  
 International, national and local economic and market conditions;  
 Availability of credit to us, our customers and/or our suppliers in needed amounts and/or on reasonable terms;  
 Fluctuations in obligations and earnings of pension and postretirement benefit plans;  
 Pricing pressures, demand for products, and ability to maintain market share;  
 Continued strength of our paperboard-based tubes and cores and composite can operations;  
 Anticipated results of restructuring activities;  
 Resolution of income tax contingencies;  
 Ability to successfully integrate newly acquired businesses into the Company's operations;  
 Ability to win new business and/or identify and successfully close suitable acquisitions at the levels needed to meet growth targets;  
 Rate of growth in foreign markets;  
 Foreign currency, interest rate and commodity price risk and the effectiveness of related hedges;  
 Actions of government agencies and changes in laws and regulations affecting the Company;  
 Liability for and anticipated costs of environmental remediation actions;  
 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;  
 Loss of consumer or investor confidence; and  
 Economic disruptions resulting from terrorist activities.

The Company undertakes no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

**Table of Contents****SONOCO PRODUCTS COMPANY****COMPANY OVERVIEW**

Sonoco is a leading provider of consumer packaging, industrial products, protective packaging and packaging supply chain services, with approximately 340 locations in 34 countries.

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

**Third Quarter 2012 Compared with Third Quarter 2011****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.

**For the three months ended September 30, 2012**

<i><u>Dollars in thousands, except per share data</u></i>	GAAP	Restructuring/ Asset Impairment	Other <sup>(1)</sup>	Base
Income before interest and income taxes	\$96,343	\$(444)	\$(3,177)	\$92,722
Interest expense, net	14,852	-	-	14,852
Income before income taxes	81,491	(444)	(3,177)	77,870
Provision for income taxes	25,399	126	(1,135)	24,390
Income before equity in earnings of affiliates	56,092	(570)	(2,042)	53,480
Equity in earnings of affiliates, net of tax	2,937	-	-	2,937
Net income	59,029	(570)	(2,042)	56,417
Net (income)/loss attributable to noncontrolling interests	(193)	31	-	(162)
Net income attributable to Sonoco	\$58,836	\$(539)	\$(2,042)	\$56,255
Per diluted common share	\$0.57	\$0.00	\$(0.02)	\$0.55

<sup>(1)</sup> Other consists primarily of excess insurance settlement gains.



**Table of Contents****SONOCO PRODUCTS COMPANY****For the three months ended October 2, 2011**

<i>Dollars in thousands, except per share data</i>	GAAP	Restructuring/ Asset Impairment	Other <sup>(2)</sup>	Base
Income before interest and income taxes	\$84,768	\$12,048	\$1,743	\$98,559
Interest expense, net	8,334	-	-	8,334
Income before income taxes	76,434	12,048	1,743	90,225
Provision for income taxes	2,344	4,831	19,093	26,268
Income before equity in earnings of affiliates	74,090	7,217	(17,350)	63,957
Equity in earnings of affiliates, net of tax	3,083	-	-	3,083
Net income	77,173	7,217	(17,350)	67,040
Net loss attributable to noncontrolling interests	30	78	-	108
Net income attributable to Sonoco	\$77,203	\$7,295	\$(17,350)	\$67,148
Per diluted common share	\$0.76	\$0.07	\$(0.17)	\$0.66

<sup>(2)</sup> Other consists primarily of acquisition-related costs and reductions in tax expense from valuation allowance adjustments on deferred tax assets.

**RESULTS OF OPERATIONS**

The following discussion provides a review of results for the three months ended September 30, 2012 versus the three months ended October 2, 2011.

**OVERVIEW**

Net sales for the third quarter of 2012 were \$1,195 million, compared with \$1,124 million in the same period in 2011. This 6.3% increase was driven by \$120 million in acquisition related sales, almost all of which is attributable to Tegrant, partially offset by lower sales prices in certain businesses and a negative impact from foreign currency translation. Tegrant was acquired November 8, 2011, and so is not included in the comparable prior year period.

Net income attributable to Sonoco for the third quarter of 2012 was \$58.8 million compared to \$77.2 million reported for the same period of 2011. Results for 2012 include a net after-tax benefit of \$2.6 million representing gains from the sale of facilities and insurance recoveries totaling \$6.4 million, after tax, partially offset by after-tax restructuring and other non-base charges of \$3.8 million. Results for 2011 include \$8.8 million of after-tax restructuring and acquisition charges and a net \$18.8 million income tax benefit from valuation allowance adjustments on deferred tax assets. Third quarter 2012 base net income attributable to Sonoco (base earnings) was \$56.3 million (\$0.55 per diluted share) versus \$67.1 million (\$0.66 per diluted share) in 2011.

A combination of unfavorable changes in mix of business and higher costs had a negative impact on earnings in most of the Company's businesses in the third quarter of 2012. In addition, a stronger dollar further reduced reported earnings compared to the prior year quarter. Absent



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the inclusion of Tegrant, overall base operating profits would have been down over 15%, as the impact of mix along with higher pension, labor, maintenance, and other costs, more than offset the benefits of positive price/cost and improved productivity. In Protective Packaging, operating profits in the legacy operations were down 10%; however, including the addition of Tegrant, operating profits for the segment as a whole more than tripled. Operating profits also increased modestly in Packaging Services, but were down significantly in Consumer Packaging and Paper and Industrial Converted Products.

**Table of Contents****SONOCO PRODUCTS COMPANY****OPERATING REVENUE**

Net sales for the third quarter of 2012 were \$1,195 million, compared to \$1,124 million for the third quarter of 2011, an increase of 6.3%, or \$71 million.

The components of the sales change were:

*(\$ in millions)*

Volume/mix	\$ 10
Selling prices	(32)
Acquisitions/dispositions, net	120
Foreign currency translation and other, net	(27)
 Total sales increase	 \$ 71

Acquisition-related sales gains were almost exclusively driven by Tegrant. The majority of the decline in sales due to selling prices occurred in the Company's recycling and paper operations and was driven by lower recovered paper prices.

**COSTS AND EXPENSES**

Cost of sales was up \$51.9 million from the prior year quarter; however, excluding the impact of acquisitions, cost of sales would have been down, in line with the decrease in sales absent acquisitions. Lower market pricing for recovered paper benefitted our industrial businesses, while Consumer Packaging benefitted from lower resin and film costs. Price/cost (the relationship of the change in sales prices to the change in costs of materials, energy and freight) was positive relative to the prior year, but the benefit was more than offset by higher pension, labor, maintenance and other costs.

Acquisitions were the primary driver of the \$20.4 million year-over-year increase in third quarter selling, general and administrative (SG&A) costs. Excluding acquisitions, these costs would have been \$4.1 million higher, driven primarily by higher pension expense and general inflation. In addition, last year's third quarter included the benefit of \$3 million of life insurance proceeds which were not repeated in the current year. Base earnings before interest and income taxes were 7.8% of sales compared to 8.8% in last year's third quarter, due to the increase in SG&A costs and the impact of acquisitions.

This year's third quarter reflects a net restructuring and restructuring-related asset benefit of \$0.4 million related to gains on the sale of previously closed facilities, while last year's quarter included charges totaling \$12.0 million. Additional information regarding restructuring actions and impairments is provided in Note 4 to the Company's Condensed Consolidated Financial Statements.

Net interest expense for the third quarter of 2012 increased to \$14.9 million, compared with \$8.3 million during the same period in 2011. The increase was due to higher debt levels as a result of the acquisition of Tegrant.

This year's third quarter effective tax rate of 31.2% was higher than the 3.1% rate recorded in the third quarter of 2011. Last year's quarter reflects an \$18.8 million net benefit from deferred tax valuation adjustments on foreign jurisdiction net operating losses. In addition, to a much lesser extent, the prior year's rate reflected the positive impact of non-taxable life insurance proceeds and the net release of reserves for uncertain tax positions. The effective tax rate on base earnings for the quarter increased to 31.3% from 29.1% last year. The quarter-over-quarter increase in the base rate reflects a decrease in non-taxable life insurance proceeds.

**Table of Contents****SONOCO PRODUCTS COMPANY****REPORTABLE SEGMENTS**

The following table recaps net sales for the third quarter of 2012 and 2011 (\$ in thousands):

	<b>Three Months Ended</b>		<b>% Change</b>
	<b>Sept. 30, 2012</b>	<b>Oct. 2, 2011</b>	
Net sales:			
Consumer Packaging	\$ 475,946	\$ 503,370	(5.4)%
Paper and Industrial Converted Products	453,605	484,066	(6.3)%
Packaging Services	124,561	112,939	10.3%
Protective Packaging	141,418	23,796	494.3%
Consolidated	\$ 1,195,530	\$ 1,124,171	6.3%

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):

	<b>Three Months Ended</b>		<b>% Change</b>
	<b>Sept. 30, 2012</b>	<b>Oct. 2, 2011</b>	
Income before interest and income taxes:			
Segment operating profit			
Consumer Packaging	\$ 43,829	\$ 52,363	(16.3)%
Paper and Industrial Converted Products	33,150	38,027	(12.8)%
Packaging Services	5,098	4,807	6.1%
Protective Packaging	10,645	3,362	216.6%
Restructuring/Asset impairment charges	444	(12,048)	
Other, net	3,177	(1,743)	
Consolidated	\$ 96,343	\$ 84,768	13.7%

The following table recaps restructuring/asset impairment charges attributable to each of the Company's segments during the third quarter of 2012 and 2011 (\$ in thousands):

	<b>Three Months Ended</b>	
	<b>Sept. 30, 2012</b>	<b>Oct. 2, 2011</b>
Restructuring/Asset impairment charges:		
Consumer Packaging	\$ (2,260)	\$ 2,202
Paper and Industrial Converted Products	899	6,397
Packaging Services	239	3,356
Protective Packaging	678	86
Corporate		7
Total	\$ (444)	\$ 12,048

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Segment operating profit is used by Company management to evaluate segment performance and does not include (dependent upon the applicable period) restructuring charges, asset impairment charges, acquisition-related costs, 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. Accordingly, the term segment operating profit is defined as the segment's portion of Income before interest and income taxes excluding those items. All other general corporate expenses have been allocated as operating costs to each of the Company's reportable segments.

### **Consumer Packaging**

Sonoco's 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; metal and peelable membrane ends and closures; and global brand artwork management.

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### **SONOCO PRODUCTS COMPANY**

This year's third quarter segment sales of \$476 million were 5.4% lower than the \$503 million reported in the prior year's quarter. Year-over-year sales were down due to lower volumes, primarily in the Company's composite cans and closures operations, slightly lower sales prices, particularly in blow-molded plastics, and the unfavorable impact of foreign currency translation. Volume in the plastics businesses was down modestly, partially driven by reduced demand for dual-ovenable trays for the frozen food industry.

Segment operating profit was \$43.8 million compared with \$52.4 million in last year's third quarter. Operating profits were lower in the quarter due to negative volume and mix and higher pension, labor and other expenses, which were partially offset by a positive price/cost relationship and productivity improvements.

#### **Paper and Industrial Converted Products**

The Paper and Industrial Converted Products segment includes the following products: high-performance paper and composite 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 other recycled materials.

Third quarter 2012 sales for the segment were \$454 million, compared with \$484 million in the same period in 2011. The 6.3% year-over-year reduction in third quarter sales was primarily due to the negative impact of foreign currency translation and lower recovered paper prices. In North America, lower recovered paper prices led to lower selling prices in the Company's recycling and paper operations. Increased recycling activity in North America and Europe, additional trade sales of paper in North America, and improvement in the Company's reels business were partially offset by tube and core volume declines in most regions of the world.

Segment operating profit was \$33.2 million in the third quarter compared to \$38.0 million in the third quarter of 2011. Temporary operating problems experienced at several North American paperboard mills and the negative impact of exchange rates, higher pension, labor and other costs accounted for the majority of the year-over-year decline. The higher volume of trade sales of paper was offset by a lower volume of intercompany sales resulting in no significant increase in segment operating profit, while the additional recycling volume added very little to operating profit given the lower recovered paper prices. These negative factors were partially offset by modest productivity improvements and a favorable price/cost relationship. The paperboard mill operating problems noted above have been resolved and are not expected to negatively affect future operating profits.

#### **Packaging Services**

The Packaging Services segment includes the following products and services: designing, manufacturing, assembling, packing and distributing temporary, semipermanent and permanent point-of-purchase displays; supply chain management services, including contract packing, fulfillment and scalable service centers; and paper amenities, such as coasters and glass covers.

Third quarter 2012 sales for this segment were \$124.6 million, compared with \$112.9 million in the same period in 2011, as the segment experienced strong volume increases in point-of-purchase displays and contract packing. These volume gains were partially offset by negative impact of foreign exchange translation.

Operating profit improved 6.1% to \$5.1 million from \$4.8 million in last year's quarter due primarily to higher volumes in international packaging fulfillment centers and productivity improvements. These improvements were partially offset by a negative change in mix and the unfavorable effect of foreign exchange translation.

#### **Protective Packaging**

The Protective Packaging segment includes the following products: custom-designed paperboard-based and expanded foam protective packaging; temperature-assurance packaging; and retail security packaging.

Third quarter 2012 segment sales increased to \$141 million, compared with \$24 million in 2011. This increase was due entirely to last year's acquisition of Tegrant as sales in the Company's legacy protective packaging operations were flat year-over-year as modest volume increases were offset by lower selling prices.



**Table of Contents****SONOCO PRODUCTS COMPANY**

Segment operating profit increased to \$10.6 million in the third quarter, compared to \$3.4 million in the third quarter of 2011, primarily due to the acquisition of Tegrant. Operating profit from the Company's legacy protective packaging operations decreased slightly as negative price/cost relationships were mostly offset by improvements in volume. Within Tegrant, operations largely performed in line with expectations except for retail packaging where customer churn and lower consumer demand in our served markets resulted in lower than expected sales and operating profit.

**Nine Months Ended September 30, 2012 Compared with Nine Months Ended October 2, 2011****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 periods presented.

**For the nine months ended September 30, 2012**

<b><u>Dollars in thousands, except per share data</u></b>	<b>GAAP</b>	<b>Restructuring/ Asset Impairment</b>	<b>Other<sup>(1)</sup></b>	<b>Base</b>
Income before interest and income taxes	\$263,778	\$24,164	\$(2,903)	\$285,039
Interest expense, net	45,521	-	-	45,521
Income before income taxes	218,257	24,164	(2,903)	239,518
Provision for income taxes	73,201	5,912	(1,037)	78,076
Income before equity in earnings of affiliates	145,056	18,252	(1,866)	161,442
Equity in earnings of affiliates, net of tax	8,236	22	-	8,258
Net income	153,292	18,274	(1,866)	169,700
Net (income)/loss attributable to noncontrolling interests	(65)	104	-	39
Net income attributable to Sonoco	\$153,227	\$18,378	\$(1,866)	\$169,739
Per diluted common share	\$1.49	\$0.18	\$(0.02)	\$1.65

<sup>(1)</sup> Other consists primarily of excess insurance settlement gains.

**For the nine months ended October 2, 2011**

<b><u>Dollars in thousands, except per share data</u></b>	<b>GAAP</b>	<b>Restructuring/ Asset Impairment</b>	<b>Other<sup>(2)</sup></b>	<b>Base</b>
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Income before interest and income taxes	\$256,601	\$23,943	\$1,994	\$282,538
Interest expense, net	25,245	-	-	25,245
Income before income taxes	231,356	23,943	1,994	257,293
Provision for income taxes	51,303	8,470	19,178	78,951
Income before equity in earnings of affiliates	180,053	15,473	(17,184)	178,342
Equity in earnings of affiliates, net of tax	8,463	17	-	8,480
Net income	188,516	15,490	(17,184)	186,822
Net (income)/loss attributable to noncontrolling interests	(514)	148	-	(366)
Net income attributable to Sonoco	\$188,002	\$15,638	\$(17,184)	\$186,456
Per diluted common share	\$1.84	\$0.15	\$(0.17)	\$1.82

<sup>(2)</sup> Other consists primarily of acquisition-related costs, excess insurance settlement gains, and reductions in tax expense from valuation allowance adjustments on deferred tax assets.



**Table of Contents****SONOCO PRODUCTS COMPANY****RESULTS OF OPERATIONS**

The following discussion provides a review of results for the nine months ended September 30, 2012 versus the nine months ended October 2, 2011.

**OVERVIEW**

Net sales for the first nine months of 2012 were \$3,610 million, compared with \$3,369 million in the same period in 2011. This 7.2% increase was driven by \$358 million in acquisition related sales, almost all of which is attributable to Tegrant, partially offset by lower sales prices and/or volume in certain businesses and a negative impact from foreign currency translation.

Net income attributable to Sonoco for the first nine months of 2012 was \$153.2 million compared to \$188.0 million reported for the same period of 2011. Current year earnings include \$16.5 million of after-tax restructuring and other non-base charges, while 2011 results reflect a total net benefit from non-base items of \$1.5 million, after-tax, including an \$18.8 million net benefit from deferred tax valuation adjustments on foreign jurisdiction tax assets. Base net income attributable to Sonoco (base earnings) was \$169.7 million (\$1.65 per diluted share) for the first nine months 2012 versus \$186.5 million (\$1.82 per diluted share) in 2011.

Lower volume and unfavorable changes in mix had a negative impact on earnings in most of the Company's businesses. Absent the impact of Tegrant, overall operating profits would have been down approximately 6%, as volume and mix, along with higher pension, labor and other costs, more than offset the benefits of positive price/cost and improved productivity. In Protective Packaging, operating profits in the legacy operations were up slightly, however, including Tegrant, they nearly tripled. Operating profits decreased modestly in Paper and Industrial Converted Products and Consumer Packaging, but were down 30% in Packaging Services.

**OPERATING REVENUE**

Net sales for the first nine months of 2012 were \$3,610 million, compared to \$3,369 million for the first nine months of 2011, an increase of \$241 million.

The components of the sales change were:

*(\$ in millions)*

Volume/mix	\$ (15)
Selling prices	(22)
Acquisitions/dispositions, net	358
Foreign currency translation and other, net	(80)
 Total sales increase	 \$ 241

Acquisition-related sales gains, which drove the overall increase in sales, were almost exclusively related to Tegrant. Sales prices were slightly lower for the Company overall as higher prices in the Consumer Packaging segment were more than offset by lower prices in the Company's paper and recycling businesses where sales prices declined because of lower market prices for recovered paper, primarily old corrugated containers (OCC).

**COSTS AND EXPENSES**

Cost of sales was up \$173.3 million from the prior year; however, cost of sales excluding the impact of acquisitions would have been down, in line with the decrease in sales absent acquisitions. Lower market pricing for recovered paper benefitted our industrial businesses, while Consumer Packaging was negatively impacted by generally higher resin, film and other costs. Price/cost was positive relative to the prior year, but was largely offset by higher pension, labor, maintenance and other costs.

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Acquisitions were responsible for nearly all of the \$60.2 million year-to-date increase in selling, general and administrative (SG&A) costs. Excluding acquisitions, SG&A costs would have been approximately 2% higher than the prior year period, driven primarily by higher pension expense and general inflation. Base earnings before interest and income taxes were 7.9% of sales compared to 8.4% last year.

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Restructuring and restructuring-related asset impairment charges totaled \$24.2 million and \$23.9 million for the first nine months of 2012 and 2011, respectively. Additional information regarding restructuring actions and impairments is provided in Note 4 to the Company's Condensed Consolidated Financial Statements.

Net interest expense for the first nine months of 2012 increased to \$45.5 million, compared with \$25.2 million during the same period in 2011. The increase was due to higher debt levels as a result of the acquisition of Tegrant.

The 2012 year-to-date effective tax rate of 33.5% was higher than the 22.2% rate recorded in the first nine months of 2011. This prior year's rate reflects the \$18.8 million net benefit from deferred tax valuation allowance adjustments on foreign jurisdiction net operating losses recorded in the third quarter along with the positive impact of non-taxable life insurance proceeds. The effective tax rate on base earnings increased to 32.6% in the first nine months of 2012 from 30.7% in the same period last year. The year-over-year increase in the base rate reflects a decrease in non-taxable life insurance proceeds.

**REPORTABLE SEGMENTS**

The following table recaps net sales for the first nine months of 2012 and 2011 (\$ in thousands):

	<b>Nine Months Ended</b>		<b>% Change</b>
	<b>Sept. 30, 2012</b>	<b>Oct. 2, 2011</b>	
Net sales:			
Consumer Packaging	\$ 1,448,750	\$ 1,492,257	(2.9)%
Paper and Industrial Converted Products	1,392,675	1,440,436	(3.3)%
Packaging Services	347,267	362,310	(4.2)%
Protective Packaging	421,567	74,356	467.0%
Consolidated	\$ 3,610,259	\$ 3,369,359	7.1%

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):

	<b>Nine Months Ended</b>		<b>% Change</b>
	<b>Sept. 30, 2012</b>	<b>Oct. 2, 2011</b>	
Income before interest and income taxes:			
Segment operating profit			
Consumer Packaging	\$ 136,661	\$ 143,713	(4.9)%
Paper and Industrial Converted Products	105,106	108,780	(3.4)%
Packaging Services	13,969	20,020	(30.2)%
Protective Packaging	29,303	10,025	192.3%
Restructuring/Asset impairment charges	(24,164)	(23,943)	
Other, net	2,903	(1,994)	
Consolidated	\$ 263,778	\$ 256,601	2.8%

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The following table recaps restructuring/asset impairment charges attributable to each of the Company's segments during the first nine months of 2012 and 2011 (\$ in thousands):

	<b>Nine Months Ended</b>	
	<u>Sept. 30,</u> <u>2012</u>	<u>Oct. 2, 2011</u>
Restructuring/Asset impairment charges:		
Consumer Packaging	\$ 8,735	\$ 13,320
Paper and Industrial Converted Products	12,396	7,052
Packaging Services	336	3,478
Protective Packaging	2,697	86
Corporate		7
<b>Total</b>	<b>\$ 24,164</b>	<b>\$ 23,943</b>

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**SONOCO PRODUCTS COMPANY**

**Consumer Packaging**

Year-to-date segment sales of \$1,449 million were down slightly from the \$1,492 million reported in the first nine months of 2011 due to lower volumes in the Company's composite cans and closures operations, lower sales from the 2011 divestiture of the Company's Brazilian injection molding plastics business, and the unfavorable impact of foreign currency translation. These negative factors were partially offset by higher selling prices. Volume of blow molded plastics was up notably, but was offset by lower market demand in the Company's other plastics businesses, partially driven by reduced demand for dual-ovenable trays for the frozen food industry. The volume growth in blow molding was driven by the commercialization in mid 2011 of new products for the food market and stronger demand in the personal care market.

Segment operating profit in the first nine months of 2012 was \$136.7 million compared with \$143.7 million in the same period last year. Operating profits were lower year-to-date as lower volumes, negative changes in mix and higher pension, labor and other expenses were only partially offset by a positive price/cost relationship and productivity improvements.

**Paper and Industrial Converted Products**

Segment sales for the first nine months of 2012 were \$1,393 million, compared with \$1,440 million in the same period in 2011. The 3% year-over-year decrease was primarily due to lower selling prices and the negative impact of foreign currency translation. In North America, lower recovered paper prices led to lower selling prices in the Company's recycling and paper operations. In addition, increased recycling activity in North America and Europe, additional trade sales of paper in North America, and improvement in the Company's reels business were partially offset by tube and core volume declines in most regions of the world.

Segment operating profit was \$105.1 million in the first nine months of 2012, compared to \$108.8 million in the first nine months of 2011. The higher volume of trade sales of paper was offset by a lower volume of intercompany sales resulting in no significant increase in segment operating profit, while the additional recycling volume added very little to operating profit given the lower recovered paper prices. Negative tube and core volume and mix changes, higher pension, labor and other costs and an unfavorable impact from foreign exchange rates were partially offset by productivity improvements and a positive price/cost relationship.

**Packaging Services**

Segment sales for the first nine months of 2012 were \$347 million, compared with \$362 million in the same period in 2011. A continued increase in fulfillment activity globally was more than offset by lower year-over-year pack center revenue associated with last year's loss of business with a major contract packaging customer and the negative impact of foreign currency translation.

Operating profit declined 30% to \$14.0 million from \$20.0 million last year due primarily to lower volumes associated with the lost contract packaging customer and the impact of exchange rates. This loss of business was partially offset by increased retail merchandising and fulfillment business and modest productivity improvements.

**Protective Packaging**

Segment sales for the first nine months of 2012 were \$421.6 million, compared with \$74.4 million in 2011. This increase was due entirely to last year's acquisition of Tegrant, as sales in the Company's legacy protective packaging operations were down slightly year-over-year.

Segment operating profit increased to \$29.3 million in the first nine months of 2012, compared to \$10.0 million in the first nine months of 2011, almost exclusively due to the acquisition of Tegrant. Operating profit from the Company's legacy protective packaging operations was up slightly year-over-year as modest productivity gains were largely offset by a small decrease in volume and negative shifts in the business mix. Within Tegrant, operations largely performed in line with expectations except for retail packaging where customer churn and lower consumer demand in our served markets resulted in lower than expected sales and operating profit.

**OTHER ITEMS**

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The Company completed its most recent annual goodwill impairment testing during the third quarter of 2012. For testing purposes, the Company performed an assessment of each reporting unit by considering certain qualitative and quantitative factors. Qualitative factors included the macroeconomic environment, Company stock price and market capitalization movement, business strategy changes, and significant customer wins and losses. Quantitative factors

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**SONOCO PRODUCTS COMPANY**

included the amount the estimated fair value exceeded its current carrying value, current year operating performance as compared to prior projections, and implied fair values from comparable trading and transaction multiples. As a result of its qualitative and quantitative assessments, the Company concluded that there was no impairment of goodwill for any of its reporting units.

When the Company estimates the fair value of a reporting unit, it does so using a discounted cash flow model based on projections of future years' operating results and associated cash flows, together with comparable trading and transaction multiples. The Company's model discounts future cash flows, forecasted over a ten-year period, with an estimated residual growth rate. The Company's projections incorporate management's best estimates of the expected future results, which include expectations related to new business, and, where applicable, improved operating margins. Future cash flows are discounted to present value using a discount rate commensurate with the risks inherent in the cash flows.

The Company's assessments, whether qualitative or quantitative, incorporate management's expectations for the future, including forecasted growth rates and/or margin improvements. Therefore, should there be changes in the relevant facts and circumstances and/or expectations, management's assessment regarding goodwill impairment may change as well.

Although no reporting units failed the qualitative or quantitative assessments noted above, in management's opinion, the reporting units with significant goodwill having the greatest risk of future impairment if actual results in the future are not as expected are Plastics Blowmolding and Rigid Paper Europe. Total goodwill associated with these reporting units was approximately \$131 million and \$10 million, respectively, at September 30, 2012.

Plastics Blowmolding manufactures blow-molded plastic containers primarily for use in nonfood applications. This reporting unit is the result of the purchase of Matrix Packaging in May 2007 which was acquired to be a growth platform for the Company and to provide an avenue into the health and beauty market. Since that time, the Company has continued to invest significantly in the business, and current projections for this reporting unit reflect management's expectations for revenue growth as well as improvements in operating margins. Sales growth is expected to be driven by new business from key nonfood customers, expansion into more food-based applications and collaboration with large-scale packaging service providers. Should the sales growth and margin improvements not materialize, a goodwill impairment charge may be incurred. Based on the valuation work performed for the current year test, the estimated fair value of Plastics Blowmolding exceeded its carrying value by approximately 29%.

Rigid Paper Europe manufactures round and shaped composite paperboard cans, single-wrap paperboard packages and fiber cartridges. Results in this unit declined substantially during the global recession, experiencing declines in both volume and profit margins. Recovery in this business following the global recession has not occurred as quickly as management previously anticipated due to on-going economic issues in the Eurozone and certain market opportunities that are evolving more slowly than expected. Although delayed, management expects a significant recovery in sales volume over the next several years and an improvement in profit margins due to price/cost, productivity gains and fixed cost leverage. However, should the projected improvements fall short of management's expectations, a goodwill impairment charge may be incurred. In its evaluation of goodwill impairment, management estimated that the fair value of Rigid Paper Europe exceeded its carrying value by approximately 80%.

Although goodwill of the Packaging Services reporting unit is not currently considered to be at risk of impairment, a large portion of sales in this unit is concentrated in a customer and will be up for renegotiation over the next few years. Management expects to retain this business; however, if a significant amount is lost and not replaced, it is possible that a goodwill impairment charge may be incurred. Total goodwill associated with this reporting unit was approximately \$158 million at September 30, 2012. Based on the valuation work performed for the current year test, the estimated fair value of Packaging Services exceeded its carrying value by approximately 58%.

Holding the other valuation assumptions constant, Plastics Blowmolding's projected operating profits across all future periods would have to decline approximately 20% before the reporting unit's carrying value is deemed to be in excess of its fair value. The corresponding percentages for Rigid Paper Europe and Packaging Services are approximately 30% and 40%, respectively. The future operating performance of these units is dependent upon a number of variables which cannot be predicted with certainty.

**Table of Contents****SONOCO PRODUCTS COMPANY****Financial Position, Liquidity and Capital Resources**

The Company's financial position remained strong during the first nine months of 2012. Cash flows provided by operations totaled \$296.5 million in the first nine months of 2012 and \$131.9 million in the first nine months of 2011, an increase of \$164.6 million. Lower pension and postretirement plan contributions accounted for approximately \$59.6 million of the increase. Trade accounts receivable levels increased in both the nine month periods ending September 30, 2012 and October 2, 2011, reflecting higher levels of business activity; however, the magnitude of the increase was lower in 2012 resulting in a year-over-year improvement in operating cash flows of \$39.8 million. Lower year-over-year market prices for OCC, one of the Company's major raw materials, favorably affected cash provided by both trade accounts receivable and inventory. Inventories provided cash of \$3.2 million in the first nine months of 2012 compared to using \$31.3 million in the same period last year.

Cash used by investing activities was \$142.6 million in the first nine months of 2012, compared with \$125.6 million in the same period last year. The net change of \$17.0 million reflects higher capital spending in the current year due largely to construction work on the new biomass boiler at the Company's Hartsville manufacturing complex, partially offset by higher proceeds from the sale of assets, and lower acquisition spending. Capital spending is expected to be approximately \$60 million during the remainder of 2012.

Cash used by financing activities totaled \$133.6 million in the first nine months of 2012, compared with \$13.0 million in the same period last year, an increased use of cash of \$120.6 million. Outstanding debt was \$1,236.5 million at September 30, 2012, reflecting net repayments of \$50.1 million during the first nine months, while net borrowings actually increased \$114.9 million during the same period last year. The Company repurchased approximately 1.3 million shares of its common stock under a repurchase program in the first nine months of 2011 at a cost of \$46.3 million. No shares have been repurchased under this program in 2012. During the first nine months of 2012, the Company utilized cash to pay dividends of \$89.5 million, an increase of \$3.6 million over the same period last year.

On October 12, 2012, Sonoco took advantage of favorable market conditions to enter into a Third Amended and Restated Credit Agreement for a syndicated bank line of credit supporting its commercial paper program. The new \$350 million agreement, which replaces the existing agreement of the same amount entered into October 18, 2010, has a new five-year maturity and includes a group of eight banks. The new agreement reflects substantially the same terms and conditions as the existing agreement. Outstanding commercial paper, a component of the Company's long-term debt, totaled \$10 million at September 30, 2012.

Under an Internal Revenue Service rule, U.S. corporations may borrow funds from foreign subsidiaries for up to 30 days without unfavorable tax consequences. The Company utilizes this rule from time to time to access offshore cash in lieu of issuing commercial paper. Amounts outstanding subject to this rule at September 30, 2012, and December 31, 2011, were \$155 million and \$145 million, respectively. These short-term lending arrangements were subsequently settled within the 30-day period, 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 under the rule.

Cash and cash equivalents totaled \$201.1 million and \$175.5 million at September 30, 2012 and December 31, 2011, respectively. Of these totals, \$176.5 million and \$151.1 million, respectively, were held by foreign subsidiaries at September 30, 2012 and December 31, 2011. These balances are exclusive of the intercompany borrowings from foreign subsidiaries under short-term lending arrangements to the parent as disclosed in the preceding paragraph. Cash held outside of the United States is available to meet local liquidity needs, or for capital expenditures, acquisitions, and other offshore growth opportunities. Most of the amounts held outside of the United States could be repatriated, but, under current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. As the Company enjoys ample domestic liquidity through a combination of operating cash flow generation and access to bank and capital markets borrowings, we consider the majority of our current cash balances to be indefinitely invested outside the United States and, accordingly, do not provide for U.S. federal tax liability on these amounts for financial reporting purposes. Repatriation could result in additional U.S. federal income tax payments. The Company utilizes a variety of tax planning and financing strategies to ensure that our worldwide cash is available in the locations where it is needed.



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**SONOCO PRODUCTS COMPANY**

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 interest coverage, and a minimum level of net worth, as defined. As of September 30, 2012, and throughout 2012, the Company's interest coverage and net worth were substantially above the minimum levels required under these covenants.

The Company anticipates additional contributions to its pension and postretirement plans of approximately \$8 million during the remainder of 2012, which would bring total contributions made during 2012 to approximately \$72 million. Future funding requirements beyond 2012 will vary depending largely on actual investment returns, future actuarial assumptions, and recently enacted legislation.

Certain assets and liabilities are reported in the Company's financial statements at fair value, the fluctuation of which can impact the Company's financial position and results of operations. Items reported by the Company on a recurring basis at fair value include derivative contracts and pension and deferred compensation related assets. The valuation of the vast majority of these items is based either on quoted prices in active and accessible markets or on other observable inputs.

At September 30, 2012, the Company had commodity contracts outstanding to fix the cost of a portion of anticipated raw materials and natural gas purchases. The total net fair market value of these instruments was an unfavorable position of \$6.4 million at September 30, 2012, and an unfavorable position of \$14.0 million at December 31, 2011. Natural gas, aluminum contracts, and old corrugated containers contracts covering an equivalent of 8.7 million MMBTUs, 4,000 metric tons, and 15,000 short tons, respectively, were outstanding at September 30, 2012. Additionally, the Company had various currency contracts outstanding to fix the exchange rate on certain anticipated foreign currency cash flows. The total market value of these instruments was a net favorable position of \$1.3 million at September 30, 2012 compared with a net favorable position of \$0.6 million at December 31, 2011. These contracts qualify as cash flow hedges and mature within twelve months of their respective reporting dates.

In addition, at September 30, 2012, the Company had various currency contracts outstanding to fix the exchange rate on certain foreign currency assets and liabilities. Although placed as an economic hedge, the Company does not apply hedge accounting to these contracts. The fair value of these currency contracts was a net unfavorable position \$0.4 million at September 30, 2012 and a net unfavorable position of \$0.7 million December 31, 2011.

At September 30, 2012, the U.S. dollar had weakened against most of the functional currencies of the Company's foreign operations compared to December 31, 2011, resulting in a translation gain of \$20.9 million being recorded in accumulated other comprehensive income during the nine months ended September 30, 2012.

**Restructuring and Impairment**

Information regarding restructuring charges and restructuring-related asset impairment charges is provided in Note 4 to the Company's Condensed Consolidated Financial Statements.

**New Accounting Pronouncements**

Information regarding new accounting pronouncements is provided in Note 11 to the Company's Condensed Consolidated Financial Statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Information about the Company's exposure to market risk is discussed under Part I, Item 2 in this report and was disclosed in its Annual Report on Form 10-K for the year ended December 31, 2011, which was filed with the Securities and Exchange Commission on February 29, 2012. There have been no other material quantitative or qualitative changes in market risk exposure since the date of that filing.

**Table of Contents****SONOCO PRODUCTS COMPANY****Item 4. Controls and Procedures.****Evaluation of Disclosure Controls and Procedures**

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

**Changes in Internal Controls**

The Company is continuously seeking to improve the efficiency and effectiveness of its operations and of its internal controls. This results in refinements to processes throughout the Company. However, there have been no changes 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 have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. In making its assessment of changes in internal control over financial reporting as of September 30, 2012, management has excluded Tegrant Holding Corporation (Tegrant), acquired November 8, 2011. The Company is currently assessing Tegrant's control environment and expects the evaluation to be completed by the first anniversary of the acquisition as required by the Securities and Exchange Commission's rules. Tegrant's total revenues for the nine month period ended September 30, 2012 represent approximately 9.7% of the Company's consolidated revenue for the same period. Its excluded assets represent approximately 17.7% of the Company's consolidated assets at September 30, 2012.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

Information with respect to legal proceedings and other exposures appears in Part I Item 3 Legal Proceedings and Part II Item 8 Financial Statements and Supplementary Data (Note 14 Commitments and Contingencies) in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and in Part I Item 1 Financial Statements (Note 14 Commitments and Contingencies) of this report.

**Fox River**

In April 2006, the United States and the State of Wisconsin (plaintiffs) sued U.S. Paper Mills Corp. (U.S. Mills), a wholly owned subsidiary of the Company, and NCR Corporation (NCR), an unrelated company, to recover certain costs incurred for response activities undertaken regarding the release and threatened release of hazardous substances in specific areas of elevated concentrations of polychlorinated biphenyls (PCBs) in sediments in the Lower Fox River and Green Bay in northeastern Wisconsin (hereinafter the Site). Pursuant to a Consent Decree agreed to by NCR and U.S. Mills as a consequence of the litigation, the Site is to be cleaned up on an expedited basis and NCR and U.S. Mills started removing contaminated sediment in May 2007. The remediation involves removal of sediment from the riverbed, dewatering of the sediment and storage at an offsite landfill. U.S. Mills and NCR reached an agreement between themselves that each would fund 50% of the costs of remediation, which through September 30, 2012, has totaled slightly more than \$25 million. U.S. Mills' environmental reserve at September 30, 2012, includes \$3.2 million for its share of the estimated remaining costs under the funding agreement for the remediation of the Site. The actual costs associated with cleanup of the Site, however, are dependent upon many factors and it is possible that remediation costs could be higher or lower than the current estimate of project costs. Under the terms of the agreement, the parties reserved their rights to make claims against each other, as well as third parties, to reallocate the costs of remediating the Site. Accordingly, the Company's ultimate share of the liability for remediating the Site could be greater or less than 50% of the total cost.

In addition to the Site discussed above, as previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2011, U.S. Mills faces additional exposure related to potential natural resource damage and environmental remediation costs for a larger stretch of the lower Fox River, including the bay at Green Bay, which includes the Site discussed above (Operating Units 2-5). On November 13, 2007, the EPA issued a unilateral Administrative Order for Remedial Action pursuant to Section 106 of CERCLA. The order requires U.S. Mills and the seven other respondents jointly to take various actions to cleanup OUs 2-5. The order covers planning and design



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**SONOCO PRODUCTS COMPANY**

work as well as dredging and disposing of contaminated sediments and the capping of dredged and less contaminated areas of the river bottom. The order also provides for a penalty for failure by a respondent to comply with its terms as well as exposing a non-complying respondent to potential treble damages. Even though 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 order, but its financial contribution will likely be determined by the lawsuit commenced in June 2008 and discussed below.

On June 12, 2008, NCR and Appleton Papers, Inc. (API), as plaintiffs, commenced suit in the United States District Court for the Eastern District of Wisconsin (No. 08-CV-0016-WCG) against U.S. Mills, as one of a number of defendants, seeking a declaratory judgment allocating among all the parties the costs and damages associated with the pollution and clean up of the Lower Fox River. The suit also seeks damages from the defendants for amounts already spent by the plaintiffs, including natural resource damages, and future amounts to be spent by all parties with regard to the pollution and cleanup of the Lower Fox River. 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 contributions from U.S. Mills and other defendants, thereby granting the defendant's 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. Subsequent to the December 2009 ruling, U.S. Mills and other defendants made motions to have the court rule that, on the same basis as the December 2009 ruling, NCR would be responsible for any costs that U.S. Mills might incur, past, present and future. These motions have been granted by the court, but are also subject to being appealed. U.S. Mills plans to continue to defend the suit vigorously.

On October 14, 2010, the United States and the State of Wisconsin filed suit against NCR, API, U.S. Mills and nine other defendants in the United States District Court for the Eastern District of Wisconsin (No. 10-CV-00910-WCG) pursuant to Sections 106 and 107 of CERCLA. The plaintiffs seek to recover unreimbursed costs incurred for activities undertaken in response to the release and threatened release of hazardous substances from facilities at or near the Lower Fox River and Green Bay as well as damages for injury to, loss of, and destruction of natural resources resulting from such releases. The plaintiffs also seek a ruling that the defendants are liable for future response costs of the plaintiffs and requiring the defendants to comply with the unilateral Administrative Order for Remedial Action discussed above. The Company does not believe that the remedies sought in the suit materially expand the Company's potential liability beyond what has been previously disclosed in this report or in the Company's prior filings. U.S. Mills plans to defend the suit vigorously.

As of September 30, 2012, U.S. Mills' environmental reserve for potential liabilities associated with the remediation of OUs 2 -5 (not including amounts accrued for remediation of the Site) totaled \$52.3 million. Because of the continuing uncertainties in the estimated costs of remediation and continuing uncertainties surrounding U.S. Mills' allocable share, including a potentially favorable resolution, it is impossible to state with any degree of confidence that any estimate is a better estimate than the amount recorded. 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 pretax exposure to its consolidated financial position is limited to the equity position of U.S. Mills, which was approximately \$90 million at September 30, 2012.

**Other Legal Matters**

On July 7, 2008, the Company was served with a complaint filed in the United States District Court for South Carolina by the City of Ann Arbor Employees' Retirement System, individually and on behalf of others similarly situated (no. 4:08-cv-02348-TLW-KDW). The suit is a class action on behalf of those who purchased the Company's common stock between February 7, 2007 and September 18, 2007, except officers and directors of the Company. The complaint, as amended, alleged that the Company issued press releases and made public statements during the class period that were materially false and misleading. The complaint also named certain Company officers as defendants and was seeking an unspecified amount of damages plus interest and attorneys' fees. On April 26, 2012, the parties filed with the court a stipulation of settlement, which subsequently has been approved by the court and, subject to the conditions contained therein, ends the litigation. The settlement was funded entirely by insurance.

**Table of Contents****SONOCO PRODUCTS COMPANY****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****ISSUER PURCHASES OF EQUITY SECURITIES**

Period		(a) Total Number of Shares Purchased <sup>1</sup>	(b) Average Price Paid per Share	(c) Total Number of	(d) Maximum
				Shares Purchased as Part of Publicly Announced Plans or Programs <sup>2</sup>	Number of Shares that May Yet be Purchased under the Plans or Programs <sup>2</sup>
7/02/12	8/05/12	15	\$ 30.29		5,000,000
8/06/12	9/02/12	230	\$ 30.63		5,000,000
9/03/12	9/30/12				5,000,000
Total		245	\$ 30.61		5,000,000

<sup>1</sup> A total of 245 common shares were repurchased in the third quarter of 2012 related to shares withheld to satisfy employee tax withholding obligations in association with the exercise of certain share-based compensation awards. These shares were not repurchased as part of a publicly announced plan or program.

<sup>2</sup> 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 were repurchased under this authorization during 2012. At September 30, 2012, a total of 5,000,000 shares remained available for repurchase.

**Item 6. Exhibits.**

10. Third Amended and Restated Credit Agreement, effective October 12, 2012
15. Letter re: unaudited interim financial information
31. Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and 17 C.F.R. 240.13a-14(a)
32. Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and 17 C.F.R. 240.13a-14(b)
101. The following materials from Sonoco Products Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2012 and December 31, 2011, (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2012 and October 2, 2011, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and October 2, 2011, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and October 2, 2011, and (v) Notes to Condensed Consolidated Financial Statements.

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**SONOCO PRODUCTS COMPANY**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**SONOCO PRODUCTS COMPANY**  
(Registrant)

Date: November 1, 2012

By: /s/ Barry L. Saunders  
Barry L. Saunders  
Vice President and Chief Financial Officer  
(principal financial officer)

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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
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