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

FORM 10-Q

☒

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

For the quarterly period ended June 26, 2005

or

☐

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

For the transition period from _____ to _____

Commission File No. 0-516

SONOCO PRODUCTS COMPANY

Incorporated under the laws
of South Carolina

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

1 N. Second St.
Hartsville, South Carolina 29550
Telephone: 843/383-7000

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

Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock at June 26, 2005:

Common stock, no par value: 98,977,135

SONOCO PRODUCTS COMPANY

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements:

Condensed Consolidated Balance Sheets — June 26, 2005 (unaudited) and December 31, 2004

Condensed Consolidated Statements of Income — Three and Six Months Ended June 26, 2005 (unaudited) and June 27, 2004 (unaudited)

Condensed Consolidated Statements of Cash Flow — Six Months Ended June 26, 2005 (unaudited) and June 27, 2004 (unaudited)

Notes to Condensed Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Item 4. Controls and Procedures.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

Item 6. Exhibits.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SONOCO PRODUCTS COMPANY CONDENSED CONSOLIDATED BALANCE SHEETS (Dollars and shares in thousands)

	June 26, 2005 (unaudited)	December 31, 2004*
Assets		
Current Assets		
Cash and cash equivalents	\$ 123,192	\$ 117,725
Trade accounts receivable, net of allowances	429,896	390,024
Other receivables	34,907	37,457
Inventories:		
Finished and in process	136,622	123,924
Materials and supplies	206,786	191,087
Prepaid expenses and other	52,872	61,895
	<u>984,275</u>	<u>922,112</u>
Property, Plant and Equipment, Net	970,808	1,007,295
Goodwill	574,069	570,508
Other Intangible Assets	77,358	88,790
Other Assets	<u>450,572</u>	<u>452,614</u>
Total Assets	<u><u>\$3,057,082</u></u>	<u><u>\$3,041,319</u></u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Payable to suppliers	\$ 270,300	\$ 274,224
Accrued expenses and other	245,727	255,973
Notes payable and current portion of long-term debt	115,701	93,754
Accrued taxes	<u>2,875</u>	<u>15,935</u>
	634,603	639,886
Long-Term Debt	815,382	813,207
Pension and Other Postretirement Benefits	146,958	148,214
Deferred Income Taxes and Other	272,317	287,133
Commitments and Contingencies		
Shareholders' Equity		
Common stock, no par value		
Authorized 300,000 shares		
98,977 and 98,500 shares were issued and outstanding at June 26, 2005 and December 31, 2004, respectively	7,175	7,175
Capital in excess of stated value	390,345	376,750
Accumulated other comprehensive loss	(114,500)	(103,155)
Retained earnings	<u>904,802</u>	<u>872,109</u>
Total Shareholders' Equity	<u>1,187,822</u>	<u>1,152,879</u>
Total Liabilities and Shareholders' Equity	<u><u>\$3,057,082</u></u>	<u><u>\$3,041,319</u></u>

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

See accompanying Notes to Condensed Consolidated Financial Statements

SONOCO PRODUCTS COMPANY

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

	Three Months Ended		Six Months Ended	
	June 26, 2005	June 27, 2004	June 26, 2005	June 27, 2004
Net sales	\$878,170	\$763,902	\$1,692,608	\$1,459,318
Cost of sales	717,426	620,753	1,383,548	1,194,587
Selling, general and administrative expenses	88,858	74,699	169,655	142,924
Restructuring charges (see Note 3)	9,143	5,768	14,185	7,096
Income before interest and income taxes	62,743	62,682	125,220	114,711
Interest expense	12,584	11,518	23,645	21,441
Interest income	(1,772)	(1,196)	(3,438)	(2,371)
Income before income taxes	51,931	52,360	105,013	95,641
Provision for income taxes	16,301	18,315	35,480	24,260
Income before equity in earnings of affiliates/minority interest in subsidiaries	35,630	34,045	69,533	71,381
Equity in earnings of affiliates/minority interest in subsidiaries	4,546	2,660	7,632	3,914
Net income	<u>\$ 40,176</u>	<u>\$ 36,705</u>	<u>\$ 77,165</u>	<u>\$ 75,295</u>
Average common shares outstanding:				
Basic	99,245	97,890	99,114	97,754
Diluted	100,581	98,691	100,521	98,441
Per common share				
Net income:				
Basic	<u>\$ 0.40</u>	<u>\$ 0.37</u>	<u>\$ 0.78</u>	<u>\$ 0.77</u>
Diluted	<u>\$ 0.40</u>	<u>\$ 0.37</u>	<u>\$ 0.77</u>	<u>\$ 0.76</u>
Cash dividends — common	<u>\$ 0.23</u>	<u>\$ 0.22</u>	<u>\$ 0.45</u>	<u>\$ 0.43</u>

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended	
	June 26, 2005	June 27, 2004
Cash Flows from Operating Activities:		
Net income	\$ 77,165	\$ 75,295
Adjustments to reconcile net income to net cash provided by operating activities:		
Asset impairment	5,565	1,698
Depreciation, depletion and amortization	80,237	73,280
Equity in earnings of affiliates/minority interest in subsidiaries	(7,632)	(3,914)
Cash dividends from affiliated companies	2,000	1,650
Loss on disposition of assets	1,957	2,179
Tax effect of nonqualified stock options	969	—
Deferred taxes	(12,386)	1,256
Change in assets and liabilities, net of effects from acquisitions, dispositions, and foreign currency adjustments:		
Receivables	(43,394)	(48,662)
Inventories	(30,999)	(29,218)
Prepaid expenses	(1,850)	(14,425)
Payables and taxes	(15,525)	864
Other assets and liabilities	12,118	(5,477)
Net cash provided by operating activities	<u>68,225</u>	<u>54,526</u>
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(59,430)	(53,540)
Cost of acquisitions, exclusive of cash acquired	(1,574)	(259,981)
Proceeds from the sale of assets	2,847	3,315
Net cash used in investing activities	<u>(58,157)</u>	<u>(310,206)</u>
Cash Flows from Financing Activities:		
Proceeds from issuance of debt	34,503	169,141
Principal repayment of debt	(11,332)	(12,935)
Net increase in commercial paper borrowings	(3,000)	108,000
Net increase in bank overdrafts	10,974	157
Cash dividends — common	(44,472)	(41,926)
Common shares issued	10,726	14,855
Net cash (used in) provided by financing activities	<u>(2,601)</u>	<u>237,292</u>
Effects of Exchange Rate Changes on Cash	<u>(2,000)</u>	<u>(1,217)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5,467	(19,605)
Cash and cash equivalents at beginning of period	<u>117,725</u>	<u>84,854</u>
Cash and cash equivalents at end of period	<u>\$123,192</u>	<u>\$ 65,249</u>

See accompanying Notes to Condensed Consolidated Financial Statements

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

Note 1: Basis of Interim Presentation

In the opinion of the management of Sonoco Products Company (the "Company"), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to state fairly the consolidated financial position, results of operations and cash flows for the interim periods reported herein. Operating results for the three and six months ended June 26, 2005, are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

With respect to the unaudited condensed consolidated financial information of the Company for the three and six month periods ended June 26, 2005 and June 27, 2004 included in this Form 10-Q, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated July 28, 2005 appearing herein, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a "report" or a "part" of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

The Financial Accounting Standards Board (FASB) has issued FASB Staff Position 106-2, 'Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003' (FSP 106-2), which requires measures of the accumulated postretirement benefit obligation and net periodic postretirement benefit costs to reflect the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. FSP 106-2 was effective for interim or annual reporting periods beginning after June 15, 2004. The Company adopted and retroactively applied FSP 106-2 as of the effective date. The Company has restated its Condensed Consolidated Statement of Income for the three and six months ended June 27, 2004 to reflect the reduction in net periodic benefit costs, as required by FSP 106-2. The impact of retroactively applying FSP 106-2 was a decrease to "Selling, general and administrative expenses" of \$2,270 and \$4,540, respectively, and an increase to "Provision for income taxes" of \$520 and \$1,040, respectively, on the Condensed Consolidated Statement of Income for the three and six months ended June 27, 2004. This restatement resulted in an increase in diluted earnings per share of \$0.02 and \$0.03, respectively, for the three and six months ended June 27, 2004.

Note 2: Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	June 26, 2005	June 27, 2004	June 26, 2005	June 27, 2004
Numerator:				
Net income	\$ 40,176	\$36,705	\$ 77,165	\$75,295
Denominator:				
Average common shares outstanding	99,245	97,890	99,114	97,754
Dilutive effect of:				
Employee stock options	1,114	515	1,056	440
Contingent employee share awards	222	286	351	247
Dilutive shares outstanding	<u>100,581</u>	<u>98,691</u>	<u>100,521</u>	<u>98,441</u>

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in thousands except per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 26, 2005	June 27, 2004	June 26, 2005	June 27, 2004
Reported net income per common share:				
Basic	<u>\$0.40</u>	<u>\$0.37</u>	<u>\$0.78</u>	<u>\$0.77</u>
Diluted	<u>\$0.40</u>	<u>\$0.37</u>	<u>\$0.77</u>	<u>\$0.76</u>

Stock options to purchase approximately 3,256 and 4,487 shares at June 26, 2005 and June 27, 2004, respectively, were not dilutive and, therefore, are excluded from the computations of diluted income per common share amounts. No adjustments were made to reported net income in the computations of earnings per share.

Note 3:

Restructuring Programs

In August 2003, the Company announced general plans to reduce its overall cost structure by \$54,000 pretax by realigning and centralizing a number of staff functions and eliminating excess plant capacity. Pursuant to these plans, the Company has initiated or completed 18 plant closings and has terminated approximately 970 employees. As of June 26, 2005, the Company had incurred cumulative charges, net of adjustments, of \$87,275 pretax associated with these activities. Of this amount, \$58,622 was related to the Engineered Carriers and Paper segment, \$20,320 was related to the Consumer Packaging segment, \$333 was related to the Packaging Services segment, \$2,693 was related to All Other Sonoco, and \$5,307 was associated with Corporate. These restructuring charges, net of adjustments, consisted of severance and termination benefits of \$52,193, asset impairment charges of \$20,485 and other exit costs of \$14,597. The Company expects to recognize an additional cost of approximately \$2,864 pretax in the future associated with these activities, which is comprised of approximately \$207 in severance and termination benefits, \$96 in asset impairment and \$2,561 in other exit costs. Of this amount, approximately \$2,378 is related to the Engineered Carriers and Paper segment and approximately \$486 is related to the Consumer Packaging segment. The Company also expects to announce the closing of up to three additional plants in furtherance of these plans.

During the three months ended June 26, 2005, the Company recognized restructuring charges, net of adjustments, of \$9,143 (\$6,126 after tax), which are reflected as "Restructuring charges" on the Company's Condensed Consolidated Statements of Income. Of these charges, \$7,938 was attributed to the Engineered Carriers and Paper segment, \$1,326 was related to the Consumer Packaging segment and \$(121) was related to All Other Sonoco. These restructuring charges, net of adjustments, consisted of severance and termination benefits of \$2,434, asset impairment charges of \$4,394 and other exit costs of \$2,315.

During the three months ended June 27, 2004, the Company recognized restructuring charges, net of adjustments, of \$5,768 (\$3,716 after tax). Of these charges, \$5,624 was attributed to the Engineered Carriers and Paper segment, \$(446) was related to the Consumer Packaging segment and \$590 was associated with All Other Sonoco. These restructuring charges, net of adjustments, consisted of severance and termination benefits of \$3,649, asset impairment charges of \$1,475 and other exit costs of \$644.

During the six months ended June 26, 2005, the Company recognized restructuring charges, net of adjustments, of \$14,185 (\$9,772 after tax). Of these charges, \$10,240 was attributed to the Engineered Carriers and Paper segment, \$4,066 was related to the Consumer Packaging segment and \$(121) was related to All Other Sonoco. These restructuring charges, net of adjustments, consisted of severance and termination benefits of \$3,871, asset impairment charges of \$6,076 and other exit costs of \$4,238.

During the six months ended June 27, 2004, the Company recognized restructuring charges, net of adjustments, of \$7,096 (\$4,577 after tax). Of these charges, \$6,501 was attributed to the Engineered Carriers and Paper segment, \$(345) was related to the Consumer Packaging segment and \$940 was associated with All Other Sonoco. These restructuring charges, net of adjustments, consisted of severance and termination benefits of \$4,224, asset impairment charges of \$1,698 and other exit costs of \$1,174.

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in thousands except per share data)

(unaudited)

During the three and six months ended June 26, 2005, the Company also recorded non-cash income in the amount of \$536 after tax and \$1,064 after tax, respectively, in order to reflect Ahlstrom's portion of restructuring costs that were charged to expense. This income, which resulted from the expected closure of certain plants that the Company contributed to Sonoco-Alcore S.a.r.l. ("Sonoco-Alcore"), is included in "Equity in earnings of affiliates/minority interest in subsidiaries" in the Company's Condensed Consolidated Statements of Income.

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

	Severance and Termination Benefits	Asset Impairment/ Disposal of Assets	Other Exit Costs	Total
Beginning liability December 31, 2004	\$ 6,674	\$ —	\$ 5,168	\$11,842
New charges	3,653	6,652	4,318	14,623
Cash payments	(5,938)	—	(3,588)	(9,526)
Asset impairment	—	(6,008)	—	(6,008)
Foreign currency translation	(308)	(68)	(136)	(512)
Adjustments and disposal of assets	218	(576)	(80)	(438)
Ending liability June 26, 2005	<u>\$ 4,299</u>	<u>\$ —</u>	<u>\$ 5,682</u>	<u>\$ 9,981</u>

During the six months ended June 26, 2005, the Company recognized writeoffs of impaired equipment and facilities in the Engineered Carriers and Paper segment in the amount of \$4,239, in the Consumer Packaging segment in the amount of \$1,367 and in All Other Sonoco in the amount of \$(41). Also, during the six months ended June 26, 2005, the Company recognized writeoffs of inventory in the Engineered Carriers and Paper segment in the amount of \$511. Other exit costs are primarily associated with lease termination and other miscellaneous plant closing costs.

The Company expects to pay the remaining restructuring costs, with the exception of ongoing pension subsidies and certain building lease termination expenses, by the end of the first quarter of 2006, using cash generated from operations.

Note 4:

Comprehensive Income

The following table reconciles net income to comprehensive income:

	Three Months Ended		Six Months Ended	
	June 26, 2005	June 27, 2004	June 26, 2005	June 27, 2004
Net income	\$40,176	\$ 36,705	\$ 77,165	\$ 75,295
Other comprehensive income:				
Foreign currency translation adjustments	(9,200)	(13,948)	(15,765)	(18,172)
Changes in derivative financial instruments, net of income tax	261	1,069	4,420	1,944
Comprehensive income	<u>\$31,237</u>	<u>\$ 23,826</u>	<u>\$ 65,820</u>	<u>\$ 59,067</u>

The following table summarizes the components of accumulated other comprehensive income and the changes in accumulated other comprehensive income, net of tax as applicable, for the six months ended June 26, 2005:

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in thousands except per share data)

(unaudited)

	Foreign Currency Translation Adjustment	Minimum Pension Liability Adjustment	Derivative Financial Instruments	Accumulated Other Comprehensive Loss
Balance at December 31, 2004	\$(46,989)	\$(58,305)	\$2,139	\$(103,155)
Year-to-date net change	(15,765)	$\frac{3}{4}$	4,420	(11,345)
Balance at June 26, 2005	<u>\$(62,754)</u>	<u>\$(58,305)</u>	<u>\$6,559</u>	<u>\$(114,500)</u>

The cumulative tax benefit of the Minimum Pension Liability Adjustments was \$26,888 at June 26, 2005 and December 31, 2004. Additionally, the deferred tax liability of Derivative Financial Instruments was \$3,716 and \$1,211 at June 26, 2005 and December 31, 2004, respectively. The tax effect on Derivative Financial Instruments for the six months ended June 26, 2005 was \$(2,505). There was no tax effect on the Minimum Pension Liability Adjustments during the six months ended June 26, 2005.

Note 5: Goodwill and Other Intangible Assets

Goodwill

A summary of the changes in goodwill for the six months ended June 26, 2005 is as follows:

	Engineered Carriers and Paper Segment	Consumer Packaging Segment	Packaging Services Segment	All Other Sonoco	Total
Balance as of January 1, 2005	\$183,671	\$172,630	\$148,268	\$65,939	\$570,508
2005 Acquisitions	469	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	469
Goodwill purchase price adjustments	10,143	$\frac{3}{4}$	16	$\frac{3}{4}$	10,159
Other adjustments	(1,041)	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	(1,041)
Foreign currency translation	<u>(4,789)</u>	<u>(1,001)</u>	<u>(86)</u>	<u>(150)</u>	<u>(6,026)</u>
Balance as of June 26, 2005	<u>\$188,453</u>	<u>\$171,629</u>	<u>\$148,198</u>	<u>\$65,789</u>	<u>\$574,069</u>

The Company continues to adjust the purchase price allocation related to the Sonoco-Alcore business combination, which was consummated during the fourth quarter of 2004. The purchase price allocation is subject to adjustment through October 31, 2005 pending finalization of the valuation of intangible and fixed assets acquired as well as finalization of the plan for restructuring certain aspects of the acquired business. During the first six months of 2005, the Company reduced the amount of the purchase price that had been allocated to customer lists by \$6,048 and identified approximately \$4,095 of additional purchase price adjustments, which relate primarily to the closure of certain plants contributed by Ahlstrom.

Other Intangible Assets

A summary of other intangible assets as of June 26, 2005 and December 31, 2004 is as follows:

	June 26, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	\$ 3,378	\$ (2,973)	\$ 3,378	\$ (2,843)
Customer lists	81,305	(11,316)	88,791	(8,251)
Land use rights	6,011	(2,174)	6,011	(2,107)
Supply agreements	5,261	(4,539)	5,261	(4,444)
Other	6,666	(4,261)	6,644	(3,650)
Total	<u>\$102,621</u>	<u>\$(25,263)</u>	<u>\$110,085</u>	<u>\$(21,295)</u>

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

Intangible assets are amortized, usually on a straight-line basis, over their respective useful lives, which generally range from three to fifteen years. Aggregate amortization expense on intangible assets was \$1,655 and \$1,499 for the three months ended June 26, 2005 and June 27, 2004, respectively, and \$3,502 and \$2,631 for the six months ended June 26, 2005 and June 27, 2004, respectively. Amortization expense on the other intangible assets identified in the table above is expected to approximate \$7,000 in 2005, \$6,700 in 2006, \$6,400 in 2007, \$6,100 in 2008 and \$5,500 in 2009.

Note 6: Dividend Declarations

On April 20, 2005, the Board of Directors declared a regular quarterly dividend of \$0.23 per share. This dividend was paid June 10, 2005 to all shareholders of record as of May 20, 2005.

On July 20, 2005, the Board of Directors declared a regular quarterly dividend of \$0.23 per share. This dividend is payable September 9, 2005 to all shareholders of record as of August 19, 2005.

Note 7: Stock Plans

As permitted by Statement of Financial Accounting Standards No. 123, 'Accounting for Stock-Based Compensation' (FAS 123), the Company has elected to account for its stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, 'Accounting for Stock Issued to Employees,' and its related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Compensation cost for performance stock options is recorded based on the quoted market price of the Company's stock at the end of the period.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FAS 123 to stock-based employee compensation.

	Three Months Ended		Six Months Ended	
	June 26, 2005	June 27, 2004	June 26, 2005	June 27, 2004
Net income, as reported	\$40,176	\$36,705	\$77,165	\$75,295
Add: Stock-based employee compensation cost, net of related tax effects, included in net income, as reported	809	459	1,698	858
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(842)	(1,591)	(5,896)	(2,834)
Proforma net income	<u>\$40,143</u>	<u>\$35,573</u>	<u>\$72,967</u>	<u>\$73,319</u>
Earnings per share:				
Basic — as reported	\$ 0.40	\$ 0.37	\$ 0.78	\$ 0.77
Basic — proforma	\$ 0.40	\$ 0.36	\$ 0.74	\$ 0.75
Diluted — as reported	\$ 0.40	\$ 0.37	\$ 0.77	\$ 0.76
Diluted — proforma	\$ 0.40	\$ 0.36	\$ 0.73	\$ 0.74

Under FAS 123, stock-based employee compensation expense determined using the fair value method is recognized over the vesting period of the stock options. The majority of stock options for the 2005 plan year were granted in the first quarter of 2005 and vested on the date of the grant. This immediate vesting would have resulted in the recognition of most of the Company's stock-based employee compensation in the first quarter of 2005 under FAS 123. Stock options for the 2004 plan year were granted in the first quarter of 2004 and vested

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

over a one-year period. Therefore, under FAS 123, the Company would have recognized approximately one-fourth of its stock-based employee compensation expense in each of the first and second quarters of 2004. The annual expense would not have been materially different between 2005 and 2004.

Note 8: Employee Benefit Plans

The Company provides non-contributory defined benefit pension plans for substantially all of its United States and certain of its Mexico employees, as well as postretirement healthcare and life insurance benefits to the majority of its retirees and their eligible dependents in the United States and Canada. The Company froze participation for newly hired employees in its traditional defined benefit pension plan for salaried and non-union hourly U.S. employees effective December 31, 2003. The Company adopted a new defined contribution plan, which covers U.S. employees hired on or after January 1, 2004. The Company also sponsors contributory pension plans covering the majority of its employees in the United Kingdom and Canada.

The components of net periodic benefit cost include the following:

	Three Months Ended		Six Months Ended	
	June 26, 2005	June 27, 2004	June 26, 2005	June 27, 2004
Retirement Plans				
Service cost	\$ 6,638	\$ 5,720	\$ 13,218	\$ 11,440
Interest cost	15,044	14,490	30,119	28,980
Expected return on plan assets	(18,010)	(16,490)	(35,915)	(32,980)
Amortization of net transition obligation	144	150	299	300
Amortization of prior service cost	368	390	748	780
Amortization of net actuarial loss	5,725	5,290	11,430	10,580
Net periodic benefit cost	<u>\$ 9,909</u>	<u>\$ 9,550</u>	<u>\$ 19,899</u>	<u>\$ 19,100</u>
Retiree Health and Life Insurance Plans				
Service cost	\$ 1,021	\$ 900	\$ 2,041	\$ 1,800
Interest cost	2,049	2,110	4,099	4,220
Expected return on plan assets	(723)	(885)	(1,448)	(1,770)
Amortization of prior service cost	(1,540)	(1,540)	(3,080)	(3,080)
Amortization of net actuarial loss	1,356	1,255	2,711	2,510
Net periodic benefit cost	<u>\$ 2,163</u>	<u>\$ 1,840</u>	<u>\$ 4,323</u>	<u>\$ 3,680</u>

During the six months ended June 26, 2005, the Company made contributions of approximately \$3,800 to its retirement and retiree health and life insurance plans. The Company anticipates that it will make additional contributions of approximately \$21,000 in 2005.

Note 9: New Accounting Pronouncements

The American Jobs Creation Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the American Jobs Creation Act also provides for a two-year phase-out of the existing extra-territorial income exclusion (the "ETI") for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union. The Company expects the net effect of the phase out of the ETI and the phase in of this new deduction to result in a decrease in the effective tax rate for fiscal years 2005 and 2006 of approximately 0.2 percentage point based on current earnings levels. In the long term, the Company expects that the new deduction will result in a decrease of the annual effective tax rate by approximately one percentage point based on current earnings levels. The American Jobs Creation Act of 2004 also creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations.

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in thousands except per share data)

(unaudited)

In December 2004, the FASB issued FASB Staff Position 109-1, 'Application of FASB Statement No. 109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004' (FSP 109-2). Under the guidance of FSP 109-1, the deduction will be treated as a "special deduction" as described in Statement of Financial Accounting Standards No. 109, 'Accounting for Income Taxes' (FAS 109). As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on the Company's tax return.

In December 2004, the FASB issued FASB Staff Position 109-2, 'Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004' (FSP 109-2). Under the guidance of FSP 109-2, an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the American Jobs Creation Act of 2004 on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS 109. The deduction is subject to a number of limitations. The Company has not yet decided whether, or to what extent, foreign earnings will be repatriated, however, depending on the source countries involved, withholding tax may be incurred on any distribution. Based on its analysis to date, it is possible that the Company may repatriate some amount between \$0 to \$100,000 with the respective tax liability ranging from \$0 to \$9,000. The Company expects to be in a position to finalize its assessment by September 30, 2005.

In December 2004, the FASB issued a revision to Statement of Financial Accounting Standards No. 123, 'Share-Based Payment' (FAS 123R), which requires companies to expense the value of employee stock options and similar awards. Under FAS 123R, share-based payment awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. In April 2005, the Securities and Exchange Commission delayed the effective date of FAS 123R to annual periods beginning after June 15, 2005. The Company is planning to use the "modified prospective" transition method, which does not require restating previous periods' results. No additional compensation expense would be recorded for any vested awards outstanding as of the effective date. Although the Company continues to reevaluate the number of stock options to be granted each year, based on its current expectations, the Company expects that earnings per diluted share will decrease by approximately \$.04 in 2006 and annually thereafter.

In March 2005, the FASB issued Interpretation No. 47, 'Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143' (FIN 47), which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company is currently evaluating the effect that the adoption of FIN 47 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, 'Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3' (FAS 154). FAS 154 establishes retrospective application as the required method for reporting a change in accounting principle, unless it is impracticable in which the changes should be applied to the latest practicable date presented. FAS 154 also requires that a correction of an error be reported as a prior period adjustment by restating prior period financial statements. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

Note 10: Financial Segment Information

Sonoco reports its results in three segments, Consumer Packaging, Engineered Carriers and Paper and Packaging Services. Certain smaller operations are reported as All Other Sonoco.

The Consumer Packaging segment includes the following products: round and shaped rigid packaging, both composite and plastic; printed flexible packaging; and metal and plastic ends and closures.

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in thousands except per share data)
(unaudited)

The Engineered Carriers and Paper segment includes the following products: high-performance paper and composite engineered carriers; paperboard; fiber-based construction tubes and forms; and recovered paper.

The Packaging Services segment provides the following products and services: point-of-purchase displays; folding cartons; packaging fulfillment; product handling; brand management; and supply chain management.

All Other Sonoco represents the activities and businesses of the Company's consolidated subsidiaries that do not meet the aggregation criteria outlined in Statement of Financial Accounting Standards No. 131, 'Disclosures about Segments of an Enterprise and Related Information' (FAS 131), and therefore, cannot be combined with other operating segments into a reportable segment. All Other Sonoco includes the following products: wooden, metal and composite reels for wire and cable packaging; molded plastics; custom designed protective packaging; adhesives; machinery manufacturing; and specialty packaging.

The following table sets forth net sales, intersegment sales and operating profit for the Company's three reportable segments and All Other Sonoco. Operating profit at the segmental level is defined as the segments' portion of "Income before income taxes" on the Company's Condensed Consolidated Statements of Income adjusted for restructuring charges and net interest expense. Because segmental results are computed based on the manner in which the Company's management reviews financial results, restructuring and net interest charges are not considered in the calculation of operating profit.

FINANCIAL SEGMENT INFORMATION (Unaudited)

	Three Months Ended		Six Months Ended	
	June 26, 2005	June 27, 2004	June 26, 2005	June 27, 2004
Net Sales:				
Consumer Packaging	\$312,369	\$272,744	\$ 589,224	\$ 529,149
Engineered Carriers and Paper	367,926	342,392	721,081	655,880
Packaging Services	111,639	70,303	216,377	123,376
All Other Sonoco	86,236	78,463	165,926	150,913
Consolidated	<u>\$878,170</u>	<u>\$763,902</u>	<u>\$1,692,608</u>	<u>\$1,459,318</u>
Intersegment Sales:				
Consumer Packaging	\$ 685	\$ 767	\$ 1,842	\$ 1,636
Engineered Carriers and Paper	21,129	19,852	40,191	38,650
Packaging Services	60	54	113	120
All Other Sonoco	9,277	6,954	17,126	14,290
Consolidated	<u>\$ 31,151</u>	<u>\$ 27,627</u>	<u>\$ 59,272</u>	<u>\$ 54,696</u>
Income before income taxes:				
Consumer Packaging — Operating Profit	\$ 24,541	\$ 18,696	\$ 46,873	\$ 37,502
Engineered Carriers and Paper — Operating Profit	26,521	35,905	51,757	57,606
Packaging Services — Operating Profit	10,738	5,023	21,337	10,600
All Other Sonoco — Operating Profit	10,086	8,826	19,438	16,099
Restructuring charges	(9,143)	(5,768)	(14,185)	(7,096)
Interest, net	(10,812)	(10,322)	(20,207)	(19,070)
Consolidated	<u>\$ 51,931</u>	<u>\$ 52,360</u>	<u>\$ 105,013</u>	<u>\$ 95,641</u>

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

Note 11: Income Taxes

The effective tax rate for the quarter ended June 26, 2005 was 31.4%, compared to the expected rate of 35.4%. This decrease is primarily due to a tax benefit in the amount of approximately \$2,000 from the recognition of deferred tax assets in Mexico for which a valuation allowance is no longer required.

Note 12: Commitments and Contingencies

The Company is a party to various legal proceedings incidental to its business and is subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which it operates. As is the case with other companies in similar industries, the Company faces exposure from actual or potential claims and legal proceedings. The Company cannot currently determine the final outcome of the proceedings described below or the ultimate amount of potential losses. Pursuant to Statement of Financial Accounting Standards No. 5, 'Accounting for Contingencies' (FAS 5), management records accruals for estimated losses at the time that information becomes available indicating that losses are probable and that the amounts are reasonably estimable. Accrued amounts are not discounted. Although the level of future expenditures for legal and environmental matters is impossible to determine with any degree of probability, it is management's opinion that such costs, when finally determined, will not have an adverse material effect on the consolidated financial position of the Company.

Environmental Matters

The Company has been named as a potentially responsible party at several environmentally contaminated sites not owned by the Company. These regulatory actions and a small number of private party lawsuits represent the Company's largest potential environmental liabilities. All of the sites are also the responsibility of other parties. The Company's liability, if any, is shared with such other parties, but the Company's share has not been finally determined in most cases. In some cases, the Company has cost-sharing agreements with other potentially responsible parties with respect to a particular site. Such agreements relate to the sharing of legal defense costs or clean-up costs, or both. The Company has assumed, for purposes of estimating amounts to be accrued, that the other parties to such cost-sharing agreements will perform as agreed. It appears that final resolution of some of the sites is years away. Accordingly, the ultimate cost to the Company with respect to such sites cannot be determined. As of June 26, 2005 and December 31, 2004, the Company had accrued \$4,694 and \$4,440, respectively, related to environmental contingencies. Actual costs to be incurred for these environmental matters in future periods will likely vary from current estimates because of the inherent uncertainties in evaluating environmental exposures.

Income Taxes

The Company is subject to ongoing examinations by tax authorities of the jurisdictions in which it operates. The Company regularly assesses the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes. The Company believes that adequate provision has been made for tax adjustments that are probable as a result of any examination. While the status of the Company's ongoing tax examinations is constantly changing due to new tax law developments, statute expirations and other factors, the Company does not expect the outcome of any tax examination to have a material effect on its consolidated financial position, results of operations or cash flows.

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 June 26, 2005, and the related condensed consolidated statements of income for the three-month and six-month periods ended June 26, 2005, and June 27, 2004 and the condensed consolidated statements of cash flows for the six-month periods ended June 26, 2005 and June 27, 2004. 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, 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, 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended (not present herein), and in our report dated March 1, 2005, 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, 2004, 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
July 28, 2005

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," "plan," "anticipate," "objective," "goal," "guidance," and similar expressions identify forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding offsetting high raw material costs, adequacy of income tax provisions, refinancing of debt, adequacy of cash flows, effects of acquisitions and dispositions, adequacy of provisions for environmental liabilities, financial strategies and the results expected from them, and producing improvements in earnings. 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 forecast in such forward-looking statements. Such 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; international, national and local economic and market conditions; fluctuations in obligations and earnings of pension and postretirement benefit plans; ability to maintain market share; pricing pressures and demand for products; continued strength of our paperboard-based engineered carriers 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; currency stability and the rate of growth in foreign markets; use of financial instruments to hedge foreign exchange, interest rate and commodity price risk; actions of government agencies; loss of consumer confidence; and, economic disruptions resulting from terrorist activities.

Results of Operations

Second Quarter 2005 Compared with Second Quarter 2004

Company Overview

Net sales for the second quarter of 2005 were \$878 million, compared to \$764 million for the second quarter of 2004.

The components of the sales change were:

(\$ in millions)

Volume	\$ 29
Selling price	15
Currency exchange rate	14
Acquisitions	56
Total sales increase	\$114

The increase related to acquisitions was primarily due to the purchase of CorrFlex Graphics, LLC ("CorrFlex") in May 2004 and the formation of the joint venture between the European engineered carriers and coreboard operations of Sonoco and Ahlstrom Corporation ("Ahlstrom"), which is known as Sonoco-Alcore S.a.r.l. ("Sonoco-Alcore") in October 2004. Average selling prices in the majority of the Company's businesses were up in the second quarter of 2005, compared with the same period in 2004. Company-wide sales volumes during the second quarter of 2005 were up approximately 11% over the same period in 2004. The sales volumes for the second quarter of 2005 include those from Sonoco-Alcore and Sonoco CorrFlex. Excluding volumes from these newly acquired businesses, company-wide sales volumes for the second quarter of 2005 were up approximately 4% over the second quarter of 2004.

Income before income taxes was flat at approximately \$52 million in the second quarters of both 2005 and 2004. Positive impacts on income before income taxes included the acquisition of CorrFlex as well as reduced costs, which resulted from ongoing productivity and purchasing initiatives. Despite higher year-over-year material costs, the Company was able to produce a positive relationship between the year-over-year change in selling prices and the year-over-year change in material costs ("price/cost relationship") during the second quarter of 2005, due primarily to the implementation of price increases. These positive factors were offset by costs associated with the integration of the European paper-based tube/core and coreboard operations of Sonoco and Ahlstrom in conjunction with the formation of Sonoco-Alcore, the national paper strike in Finland that although now settled, resulted in the shutdown of the

SONOCO PRODUCTS COMPANY

Company's paper and engineered carriers facilities in the area, continued weak general economic conditions in Europe, weaker demand for engineered carriers and paper in most geographies, higher energy, freight and labor costs, and startup costs associated with the Company's new rigid plastic container plant in Wisconsin. Income before income taxes included pretax charges in connection with the Company's previously announced restructuring actions of approximately \$9 million and \$6 million for the second quarter of 2005 and 2004, respectively. These restructuring charges were not allocated to the operating segments.

The Company expects a slight increase in volume during the third quarter of 2005 due primarily to the normal seasonality that occurs in the Consumer and Packaging Services segments. The Company also anticipates that the price/cost relationship will remain relatively neutral and that productivity improvements will be partially offset by year-over-year increases in the cost of labor, freight and energy.

The effective tax rate for the quarter ended June 26, 2005 was 31.4%, compared to 35% for the quarter ended June 27, 2004. This decrease is primarily due to a tax benefit in the amount of approximately \$2 million from the recognition of deferred tax assets in Mexico for which a valuation allowance is no longer required.

Equity in earnings of affiliates/minority interest in subsidiaries for the second quarter of 2005 totaled approximately \$4.5 million compared with approximately \$2.7 million for the second quarter of 2004. This increase was due primarily to minority interest associated with the Sonoco-Alcore business combination, which was completed during the fourth quarter of 2004.

Reportable Segments

The Company reports results in three segments, Consumer Packaging, Engineered Carriers and Paper and Packaging Services. All Other Sonoco represents the activities and businesses of the Company's consolidated subsidiaries that do not meet the aggregation criteria outlined in Statement of Financial Accounting Standards No. 131, 'Disclosures about Segments of an Enterprise and Related Information' (FAS 131) and therefore cannot be combined with other operating segments into a reportable segment.

Operating profit at the segmental level is defined as the segments' portion of "Income before income taxes" on the Company's Condensed Consolidated Statements of Income, adjusted for restructuring charges and net interest expense. Because segmental results are computed based on the manner in which the Company's management reviews financial results, restructuring and net interest charges are not considered in the calculation of operating profit. General corporate expenses, with the exception of restructuring charges, interest and income taxes, have been allocated as operating costs to each of the Company's reportable segments and All Other Sonoco. See Note 10 to the Company's Condensed Consolidated Financial Statements for more information on reportable segments.

Consumer Packaging Segment

The Consumer Packaging segment includes the following products: round and shaped rigid packaging, both composite and plastic; printed flexible packaging; and metal and plastic ends and closures.

Net sales of the Consumer Packaging segment for the second quarter of 2005 totaled approximately \$312 million, compared to approximately \$273 million in the second quarter of 2004. This increase was due primarily to increased volumes and selling prices in composite cans, rigid plastic containers, closures and flexible packaging as well as a favorable impact of foreign exchange rates.

Operating profit, as defined above, for the Consumer Packaging segment in the second quarter of 2005 was approximately \$25 million, up from approximately \$19 million for the same period in 2004. This increase resulted primarily from reduced costs related to on-going productivity initiatives as well as higher volume. These favorable impacts were partially offset by startup costs at a new facility as well as rising costs for energy, freight and labor.

Engineered Carriers and Paper Segment

The Engineered Carriers and Paper segment includes the following products: high-performance paper and composite engineered carriers; paperboard; fiber-based construction tubes and forms; and recovered paper.

SONOCO PRODUCTS COMPANY

Net sales of the Engineered Carriers and Paper segment for the second quarter of 2005 totaled approximately \$368 million, compared to approximately \$342 million in the second quarter of 2004. This increase was due primarily to the formation of Sonoco-Alcore, which resulted in an increase in net sales of approximately \$25 million in the second quarter of 2005, compared to the same period in 2004. Higher selling prices of domestic engineered carriers and paperboard and the favorable impact of foreign exchange rates also contributed to the increase in net sales in this segment. These positive factors were partially offset by lower volume in North America and Europe.

Operating profit, as defined above, for the Engineered Carriers and Paper segment in the second quarter of 2005 was approximately \$27 million, down from approximately \$36 million for the same period in 2004. The decrease in operating profit was primarily due to lower volumes and the mix of business. Other negative factors included costs associated with the integration of Sonoco and Ahlstrom operations in Europe and the impact of higher costs for energy, freight and labor. These negative factors were partially offset by a favorable price/cost relationship in North America, productivity improvements and cost reductions resulting from restructuring actions.

Packaging Services Segment

The Packaging Services segment provides the following products and services: point-of-purchase displays; folding cartons; packaging fulfillment; product handling; brand management; and supply chain management.

Net sales of the Packaging Services segment for the second quarter of 2005 totaled approximately \$112 million, compared to approximately \$70 million in the second quarter of 2004. This increase was due almost entirely to the acquisition of CorrFlex, which resulted in an increase in net sales of approximately \$31 million in the second quarter of 2005, compared to the same period in 2004. Higher volumes also contributed to the increase in net sales in this segment.

Operating profit, as defined above, for the Packaging Services segment was approximately \$11 million in the second quarter of 2005, compared to approximately \$5 million for the same period in 2004. This increase also resulted primarily from the acquisition of CorrFlex.

All Other Sonoco

All Other Sonoco includes the following products: wooden, metal and composite reels for wire and cable packaging; molded plastics; custom designed protective packaging; adhesives; machinery manufacturing; and specialty packaging.

Net sales of All Other Sonoco for the second quarter of 2005 totaled approximately \$86 million, compared to approximately \$78 million in the second quarter of 2004. This increase was primarily due to higher selling prices in molded and extruded plastics, wire and cable reels, and protective packaging. Higher volumes in protective packaging and wire and cable reels also contributed to the increase in net sales in All Other Sonoco.

Operating profit, as defined above, for All Other Sonoco was approximately \$10 million in the second quarter of 2005, compared to approximately \$9 million for the same period in 2004. This increase resulted primarily from on-going productivity initiatives, a slightly favorable price/cost relationship and cost reductions resulting from restructuring actions.

June 2005 Year-to-Date Compared with June 2004 Year-to-Date

Company Overview

Net sales for the first six months of 2005 were \$1,693 million, compared to \$1,459 million for the first six months of 2004.

The components of the sales change were:

(\$ in millions)

Volume	\$ 36
Selling price	38
Currency exchange rate	28
Acquisitions	132
Total sales increase	\$234

SONOCO PRODUCTS COMPANY

The increase related to acquisitions was primarily due to the purchase of CorrFlex in May 2004 and the formation of the joint venture between the European engineered carriers and coreboard operations of Sonoco and Ahlstrom, which is known as Sonoco-Alcore. Average selling prices in the majority of the Company's businesses were up in the first six months of 2005, compared with the same period in 2004. Company-wide sales volumes during the first six months of 2005 were up approximately 12% over the same period in 2004. The sales volumes for the first six months of 2005 include those from Sonoco-Alcore and Sonoco CorrFlex. Excluding volumes from these newly acquired businesses, company-wide sales volumes for the first six months of 2005 were up approximately 2% over the first six months of 2004.

Income before income taxes totaled approximately \$105 million in the first six months of 2005, compared to approximately \$96 million for the same period in 2004. This increase was due to the acquisition of CorrFlex as well as reduced costs, which resulted from ongoing productivity and purchasing initiatives. Also contributing to this increase was a favorable price/cost relationship. These increases were partially offset by costs associated with the integration of the European paper-based tube/core and coreboard operations of Sonoco and Ahlstrom in conjunction with the formation of Sonoco-Alcore, the national paper strike in Finland, continued weak general economic conditions in Europe, lower volumes and the mix of business in the Engineered Carriers and Paper segment, and startup costs associated with the Company's new rigid plastic container plant in Wisconsin. Income before income taxes included pretax charges in connection with the Company's previously announced restructuring actions of approximately \$14 million and \$7 million for the first six months of 2005 and 2004, respectively. These restructuring charges were not allocated to the operating segments. Income before income taxes for the first six months of 2004 also included the impact of a pretax charge of approximately \$5 million associated with an unfavorable legal judgment that was entered against the Company.

The effective tax rate for the six months ended June 26, 2005 was 33.8%, compared to 25.4% for the six months ended June 27, 2004. Included in the effective tax rate for the six months ended June 27, 2004 was the impact of the recognition of certain tax benefits. These tax benefits totaled approximately \$9 million and resulted from the Internal Revenue Service closing its examination of the Company's tax returns for years 1999 through 2001.

Equity in earnings of affiliates/minority interest in subsidiaries for the first six months of 2005 totaled approximately \$7.6 million compared with approximately \$3.9 million for the first six months of 2004. This increase was due primarily to minority interest associated with the Sonoco-Alcore business combination, which was completed during the fourth quarter of 2004.

Reportable Segments

Consumer Packaging Segment

Net sales of the Consumer Packaging segment for the first six months of 2005 totaled approximately \$589 million, compared to approximately \$529 million in the first six months of 2004. This increase was due primarily to increased volumes and selling prices in composite cans, rigid plastic containers, closures and flexible packaging. The favorable impact of foreign exchange rates also contributed to the increase in net sales in this segment.

Operating profit, as defined above, for the Consumer Packaging segment in the first six months of 2005 was approximately \$47 million, up from approximately \$38 million for the same period in 2004. This increase resulted primarily from reduced costs related to on-going productivity initiatives as well as higher volume. These favorable impacts were partially offset by a slightly negative price/cost relationship, startup costs at a new facility and increased costs for energy, freight and labor.

Engineered Carriers and Paper Segment

Net sales of the Engineered Carriers and Paper segment for the first six months of 2005 totaled approximately \$721 million, compared to approximately \$656 million in the first six months of 2004. This increase was due primarily to the formation of Sonoco-Alcore, which resulted in an increase in net sales of approximately \$52 million in the first six months of 2005, compared to the same period in 2004. Higher average selling prices and the favorable impact of foreign exchange rates also contributed to the increase in net sales in this segment. These positive factors were partially offset by lower volume in North America and Europe.

SONOCO PRODUCTS COMPANY

Operating profit, as defined above, for the Engineered Carriers and Paper segment in the first six months of 2005 was approximately \$52 million, down from approximately \$58 million for the same period in 2004. Operating profit was negatively impacted by costs associated with the integration of Sonoco and Ahlstrom operations in Europe, lower volumes in North America and Europe and increased costs for energy, freight and labor. These negative factors were partially offset by a favorable price/cost relationship in North America and productivity improvements and cost reductions resulting from restructuring actions. Operating profit for the first six months of 2004 included the impact of a pretax charge of approximately \$5 million, which related to an unfavorable legal judgment against the Company.

Packaging Services Segment

Net sales of the Packaging Services segment for the first six months of 2005 totaled approximately \$216 million, compared to approximately \$123 million in the first six months of 2004. This increase was due almost entirely to the acquisition of CorrFlex, which resulted in an increase in net sales of approximately \$80 million in the first six months of 2005, compared to the same period in 2004. Higher volumes also contributed to the increase in net sales in this segment.

Operating profit, as defined above, for the Packaging Services segment was approximately \$21 million in the first six months of 2005, compared to approximately \$11 million for the same period in 2004. This increase also resulted primarily from the acquisition of CorrFlex. Productivity initiatives also positively impacted operating profit for this segment.

All Other Sonoco

Net sales of All Other Sonoco for the first six months of 2005 totaled approximately \$166 million, compared to approximately \$151 million in the first six months of 2004. This increase was primarily due to higher selling prices and volume in molded and extruded plastics, wire and cable reels, and protective packaging.

Operating profit, as defined above, for All Other Sonoco was approximately \$19 million in the first six months of 2005, compared to approximately \$16 million for the same period in 2004. This increase resulted primarily from on-going productivity initiatives and a favorable price/cost relationship, partially offset by increased costs for energy, freight and labor.

Financial Position, Liquidity and Capital Resources

The Company's financial position remained strong during the first six months of 2005. Total debt increased by approximately \$24 million to \$931 million from \$907 million at December 31, 2004. This increase was due primarily to higher debt levels at Sonoco-Alcore, which, for the most part, resulted from the completion, in accordance with the terms of the joint venture agreement, of replacing certain intercompany foreign loan obligations with external debt. As a result of the repayment of these intercompany loan obligations, cash levels increased at the Company's other European operations.

For the first six months of 2005, cash flows from operations totaled approximately \$68 million, compared with approximately \$55 million for the same period in 2004. This increase of approximately \$13 million was partly a result of lower contributions to the Company's pension plan. Cash flows from operations for the first six months of 2005 included the impact of approximately \$4 million for funding the Company's benefit plans, compared with approximately \$15 million for the first six months of 2004. During the first six months of 2005, the Company received cash proceeds of approximately \$11 million from the issuance of common stock, which related primarily to the exercise of stock options. These proceeds, combined with new borrowings and cash generated from operations, were used to fund capital expenditures of approximately \$59 million and to pay dividends of approximately \$44 million in the first six months of 2005.

The Company is currently a party to two interest rate swap agreements that effectively swap the interest rate on \$250 million of fixed rate debt to a floating rate. All interest rate swaps qualified as fair value hedges under Statement of Financial Accounting Standards No. 133, 'Accounting for Derivative Instruments and Hedging Activities' (FAS 133). The fair market value of these interest rate swaps was a favorable position of \$16.3 million and \$9.7 million as of June 26, 2005 and December 31, 2004, respectively.

SONOCO PRODUCTS COMPANY

At June 26, 2005, the Company had commodity swaps outstanding to fix the costs of a portion of raw materials for 2005 through 2007 in some cases. The swaps qualify as cash flow hedges under FAS 133. The fair market value of these commodity swaps was a favorable position of \$10.6 million (\$6.8 million after tax) and \$3.4 million (\$2.2 million after tax) at June 26, 2005 and December 31, 2004, respectively.

Restructuring and Impairment

In August 2003, the Company announced general plans to reduce its overall cost structure by \$54 million pretax by realigning and centralizing a number of staff functions and eliminating excess plant capacity. Pursuant to these plans, the Company has initiated or completed 18 plant closings and has terminated approximately 970 employees. As of June 26, 2005, the Company had incurred cumulative charges, net of adjustments, of approximately \$87.3 million pretax associated with these activities. The Company expects to recognize an additional cost of approximately \$2.9 million pretax in the future associated with these charges, which is comprised of approximately \$0.2 million in severance and termination benefits, \$0.1 million in asset impairment and \$2.6 million in other exit costs. Of this amount, approximately \$2.4 million is related to the Engineered Carriers and Paper segment and approximately \$0.5 million is related to the Consumer Packaging segment. As part of the target to reduce its cost structure by \$54 million, the Company also expects to announce the closing of up to three additional plants in furtherance of these plans. The costs associated with these future plant closings have not yet been determined. The Company expects to pay the remaining restructuring costs, with the exception of ongoing pension subsidies and certain building lease termination expenses, by the end of the first quarter of 2006, using cash generated from operations.

During the three months ended June 26, 2005, the Company recognized restructuring charges, net of adjustments, of \$9.1 million (\$6.1 million after tax), primarily associated with previously announced plant closings. These restructuring charges, net of adjustments, consisted of severance and termination benefits of \$2.4 million, asset impairment charges of \$4.4 million and other exit costs of \$2.3 million.

During the three months ended June 27, 2004, the Company recognized restructuring charges of \$5.8 million (\$3.7 million after tax), primarily associated with previously announced plant closings. These restructuring charges, net of adjustments, consisted primarily of severance and termination benefits of \$3.7 million, asset impairment charges of \$1.5 million and other exit costs of \$0.6 million.

During the six months ended June 26, 2005, the Company recognized restructuring charges, net of adjustments, of \$14.2 million (\$9.8 million after tax), primarily associated with previously announced plant closings. These restructuring charges, net of adjustments, consisted of severance and termination benefits of \$3.9 million, asset impairment charges of \$6.1 million and other exit costs of \$4.2 million.

During the six months ended June 27, 2004, the Company recognized restructuring charges, net of adjustments, of \$7.1 million (\$4.6 million after tax), primarily associated with previously announced plant closings. These restructuring charges, net of adjustments, consisted of severance and termination benefits of \$4.2 million, asset impairment charges of \$1.7 million and other exit costs of \$1.2 million.

During the three and six months ended June 26, 2005, the Company also recorded non-cash income in the amount of \$0.5 million after tax and \$1.1 million after tax, respectively, in order to reflect Ahlstrom's portion of restructuring costs that were charged to expense. This income, which resulted from the expected closure of certain plants that the Company contributed to Sonoco-Alcore, is included in "Equity in earnings of affiliates/minority interest in subsidiaries" in the Company's Condensed Consolidated Statements of Income.

See Note 3 to the Company's Condensed Consolidated Financial Statements for more information on the Company's restructuring programs.

SONOCO PRODUCTS COMPANY

New Accounting Pronouncements

The American Jobs Creation Act of 2004 provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the American Jobs Creation Act also provides for a two-year phase-out of the existing extra-territorial income exclusion (the “ETI”) for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union. The Company expects the net effect of the phase out of the ETI and the phase in of this new deduction to result in a decrease in the effective tax rate for fiscal years 2005 and 2006 of approximately 0.2 percentage point based on current earnings levels. In the long term, the Company expects that the new deduction will result in a decrease of the annual effective tax rate by approximately one percentage point based on current earnings levels. The American Jobs Creation Act of 2004 also creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations.

In December 2004, the FASB issued FASB Staff Position 109-1, ‘Application of FASB Statement No. 109, “Accounting for Income Taxes,” to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004’ (FSP 109-2). Under the guidance of FSP 109-1, the deduction will be treated as a “special deduction” as described in Statement of Financial Accounting Standards No. 109, ‘Accounting for Income Taxes’ (FAS 109). As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on the Company’s tax return.

In December 2004, the FASB issued FASB Staff Position 109-2, ‘Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004’ (FSP 109-2). Under the guidance of FSP 109-2, an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the American Jobs Creation Act of 2004 on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS 109. The deduction is subject to a number of limitations. The Company has not yet decided whether, or to what extent, foreign earnings will be repatriated, however, depending on the source countries involved, withholding tax may be incurred on any distribution. Based on its analysis to date, it is possible that the Company may repatriate some amount between \$0 to \$100 million with the respective tax liability ranging from \$0 to \$9 million. The Company expects to be in a position to finalize its assessment by September 30, 2005.

In December 2004, the FASB issued a revision to Statement of Financial Accounting Standards No. 123, ‘Share-Based Payment’ (FAS 123R), which requires companies to expense the value of employee stock options and similar awards. Under FAS 123R, share-based payment awards result in a cost that will be measured at fair value on the awards’ grant date, based on the estimated number of awards that are expected to vest. In April 2005, the Securities and Exchange Commission delayed the effective date of FAS 123R to annual periods beginning after June 15, 2005. The Company is planning to use the “modified prospective” transition method, which does not require restating previous periods’ results. No additional compensation expense would be recorded for any vested awards outstanding as of the effective date. Although the Company continues to reevaluate the number of stock options to be granted each year, based on its current expectations, the Company expects that earnings per diluted share will decrease by approximately \$.04 in 2006 and annually thereafter.

In March 2005, the FASB issued Interpretation No. 47, ‘Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143’ (FIN 47), which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability’s fair value can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company is currently evaluating the effect that the adoption of FIN 47 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, ‘Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3’ (FAS 154). FAS 154 establishes retrospective application as the required method for reporting a change in accounting principle, unless it is impracticable in which the changes should be applied to the latest practicable date presented. FAS 154 also requires that a correction of an error be reported as a prior period adjustment by restating prior period financial statements. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

SONOCO PRODUCTS COMPANY

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information about the Company's exposure to market risk was disclosed in its Annual Report on Form 10-K for the year ended December 31, 2004, which was filed with the Securities and Exchange Commission on March 2, 2005. There have been no material quantitative or qualitative changes in market risk exposure since the date of that filing.

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 has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

Incorporated by reference to Item 4 of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended March 27, 2005.

Item 6. Exhibits.

Exhibit 15	—	Letter re unaudited interim financial information
Exhibit 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)
Exhibit 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)

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: July 28, 2005

By: /s/ Charles J. Hupfer

Charles J. Hupfer
Senior Vice President and Chief Financial Officer

By: /s/ Barry L. Saunders

Barry L. Saunders
Staff Vice President and Chief Accounting Officer

SONOCO PRODUCTS COMPANY

EXHIBIT INDEX

Exhibit Number	Description
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)

July 28, 2005

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Commissioners:

We are aware that our report dated July 28, 2005 on our review of interim financial information of Sonoco Products Company for the three and six month periods ended June 26, 2005 and included in the Company's quarterly report on Form 10-Q for the quarter then ended is incorporated by reference in its Registration Statements on Forms S-8 (File No. 33-45594; File No. 33-60039; File No. 333-12657; File No. 333-69929; File No. 333-100799; and File No. 333-100798) and S-4 (File No. 333-119863).

Yours very truly,

/s/ PricewaterhouseCoopers LLP

I, Harris E. DeLoach, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sonoco Products Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2005

By: /s/ Harris E. DeLoach, Jr.

Harris E. DeLoach, Jr.

Chief Executive Officer

I, Charles J. Hupfer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sonoco Products Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2005

By: /s/ Charles J. Hupfer

Charles J. Hupfer

Senior Vice President and Chief Financial Officer

**Certification of Principal Executive Officer and Principal Financial Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the
Sarbanes – Oxley Act of 2002**

The undersigned, who are the chief executive officer and the chief financial officer of Sonoco Products Company, each hereby certifies that, to the best of his knowledge, the accompanying Form 10-Q for the quarter ended June 26, 2005, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

July 28, 2005

/s/ Harris E. DeLoach, Jr.

Harris E. DeLoach, Jr.

Chief Executive Officer

/s/ Charles J. Hupfer

Charles J. Hupfer

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Sonoco Products Company (the “Company”) and will be retained by the Company and furnished to the Securities and Exchange Commission upon request. This certification accompanies the Form 10-Q and shall not be treated as having been filed as part of the Form 10-Q.