HERSHEY CO
Form 10-Q
May 11, 2011

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

FORM 10-Q

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

For the quarterly period ended April 3, 2011

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 1-183

THE HERSHEY COMPANY
100 Crystal A Drive
Hershey, PA 17033

Registrant's telephone number: 717-534-4200

State of Incorporation	IRS Employer Identification No.
Delaware	23-0691590

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o(Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common Stock, $1 par value – 164,872,390 shares, as of April 22, 2011. Class B Common Stock, $1 par value – 60,632,467 shares, as of April 22, 2011.

THE HERSHEY COMPANY
INDEX

-2-

PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

THE HERSHEY COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(in thousands except per share amounts)

	For the Three Months Ended April 3, 2011		April 4, 2010	
Net Sales	$	1,564,223	$	1,407,843
Costs and Expenses:				
Cost of sales		908,038		813,863
Selling, marketing and administrative		377,798		340,646
Business realignment and impairment charges, net		1,838		-
Total costs and expenses		1,287,674		1,154,509
Income before Interest and Income Taxes		276,549		253,334
Interest expense, net		24,477		23,749
Income before Income Taxes		252,072		229,585
Provision for income taxes		91,957		82,191
Net Income	$	160,115	$	147,394
Earnings Per Share - Basic - Class B Common Stock	$	.65	$	.60
Earnings Per Share - Diluted - Class B Common Stock	$	.65	$	.60
Earnings Per Share - Basic - Common Stock	$	.72	$	.66
Earnings Per Share - Diluted - Common Stock	$	.70	$	.64
Average Shares Outstanding - Basic - Common Stock		166,452		167,257
Average Shares Outstanding - Basic - Class B Common Stock		60,682		60,709
Average Shares Outstanding - Diluted		230,194		229,551
Cash Dividends Paid Per Share:				

Common Stock	$ .3450	$ .3200
Class B Common Stock	$ .3125	$ .2900

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

THE HERSHEY COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

ASSETS	April 3, 2011	December 31, 2010
Current Assets:		
Cash and cash equivalents	$ 752,266	$ 884,642
Accounts receivable - trade	433,519	390,061
Inventories	535,520	533,622
Deferred income taxes	61,260	55,760
Prepaid expenses and other	171,956	141,132
Total current assets	1,954,521	2,005,217
Property, Plant and Equipment, at cost	3,374,832	3,324,763
Less-accumulated depreciation and amortization	(1,931,011)	(1,887,061)
Net property, plant and equipment	1,443,821	1,437,702
Goodwill	527,019	524,134
Other Intangibles	122,712	123,080
Deferred Income Taxes	21,460	21,387
Other Assets	165,622	161,212
Total assets	$ 4,235,155	$ 4,272,732
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 381,504	$ 410,655
Accrued liabilities	547,189	593,308
Accrued income taxes	76,734	9,402
Short-term debt	24,474	24,088
Current portion of long-term debt	261,031	261,392
Total current liabilities	1,290,932	1,298,845
Long-term Debt	1,540,924	1,541,825
Other Long-term Liabilities	494,315	494,461
Total liabilities	3,326,171	3,335,131
Stockholders' Equity:		
The Hershey Company Stockholders’ Equity		
Preferred Stock, shares issued: none in 2011 and 2010	-	-
Common Stock, shares issued: 299,269,277 in 2011 and 299,195,325 in 2010	299,269	299,195
Class B Common Stock, shares issued: 60,632,467 in 2011 and 60,706,419 in 2010	60,632	60,706
Additional paid-in capital	438,371	434,865
Retained earnings	4,458,210	4,374,718
Treasury-Common Stock shares at cost: 134,509,270 in 2011 and 132,871,512 in 2010	(4,175,325)	(4,052,101)

Accumulated other comprehensive loss	(205,740)	(215,067)
The Hershey Company stockholders’ equity	875,417	902,316
Noncontrolling interests in subsidiaries	33,567	35,285
Total stockholders' equity	908,984	937,601
Total liabilities and stockholders' equity	$4,235,155	$ 4,272,732

The accompanying notes are an integral part of these consolidated balance sheets.

THE HERSHEY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	For the Three Months Ended April 3, 2011	April 4, 2010
Cash Flows Provided from (Used by) Operating Activities		
Net Income	$ 160,115	$ 147,394
Adjustments to Reconcile Net Income to Net Cash		
Provided from Operations:		
Depreciation and amortization	51,054	47,330
Stock-based compensation expense, net of tax of $5,520 and $5,017, respectively	9,604	8,996
Excess tax benefits from exercise of stock options	(3,818)	(1,293)
Deferred income taxes	(272)	1,836
Business realignment and impairment charges, net of tax of $3,594	6,117	-
Contributions to pension plans	(1,299)	(1,317)
Changes in assets and liabilities, net of effects from business acquisitions:		
Accounts receivable - trade	(43,458)	(855)
Inventories	10,302	75,658
Accounts payable	3,135	6,288
Other assets and liabilities	(32,102)	(102,851)
Net Cash Flows Provided from Operating Activities	159,378	181,186
Cash Flows Provided from (Used by) Investing Activities		
Capital additions	(77,486)	(30,603)
Capitalized software additions	(4,119)	(4,946)
Proceeds from sales of property, plant and equipment	174	172
Business acquisition	(5,750)	-
Net Cash Flows (Used by) Investing Activities	(87,181)	(35,377)
Cash Flows Provided from (Used by) Financing Activities		
Net increase in short-term debt	670	18,845
Repayment of long-term debt	(1,496)	(1,833)
Cash dividends paid	(76,623)	(70,906)
Exercise of stock options	62,007	21,125
Excess tax benefits from exercise of stock options	3,818	1,293
Repurchase of Common Stock	(192,949)	(64,152)
Net Cash Flows (Used by) Financing Activities	(204,573)	(95,628)
(Decrease) Increase in Cash and Cash Equivalents	(132,376)	50,181
Cash and Cash Equivalents, beginning of period	884,642	253,605
Cash and Cash Equivalents, end of period	$ 752,266	$ 303,786

Interest Paid	$ 41,923	$ 45,029
Income Taxes Paid	$ 15,692	$ 29,576

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

THE HERSHEY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Our unaudited consolidated financial statements provided in this report include the accounts of the Company and our majority-owned subsidiaries and entities in which we have a controlling financial interest after the elimination of intercompany accounts and transactions. We have a controlling financial interest if we own a majority of the outstanding voting common stock and the noncontrolling shareholders do not have substantive participating rights, or we have significant control over an entity through contractual or economic interests in which we are the primary beneficiary. We prepared these statements in accordance with the instructions to Form 10-Q. The financial statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim reporting. These statements do not include all of the information and footnotes required by GAAP for complete financial statements.

Our significant interim accounting policies include the recognition of a pro rata share of certain estimated annual amounts primarily for raw material purchase price variances, advertising expense, incentive compensation expenses and the effective income tax rate.

We included all adjustments (consisting only of normal recurring accruals) which we believe were considered necessary for a fair presentation. We reclassified certain prior year amounts to conform to the 2011 presentation. Operating results for the three months ended April 3, 2011 may not be indicative of the results that may be expected for the year ending December 31, 2011, because of the seasonal effects of our business. For more information, refer to the consolidated financial statements and notes included in our 2010 Annual Report on Form 10-K.

2. BUSINESS ACQUISITION

In February 2011, we acquired a 49% interest in Tri-US, Inc. of Boulder, Colorado, a company that manufactures, markets and sells nutritional beverages under the "mix1" brand name. We invested $5.8 million and are accounting for this investment using the equity method.

We included results subsequent to the acquisition date in the consolidated financial statements. If we had included the results of the acquisition in the consolidated financial statements for each of the periods presented, the effect would not have been material.

3. NONCONTROLLING INTERESTS IN SUBSIDIARIES

In May 2007, we entered into an agreement with Godrej Beverages and Foods, Ltd., one of India's largest consumer goods, confectionery and food companies, to manufacture and distribute confectionery products, snacks and beverages across India. Under the agreement, we own a 51% controlling interest in Godrej Hershey Ltd. In January 2009, the Company contributed cash of approximately $8.7 million to Godrej Hershey Ltd. and owners of the noncontrolling interests in Godrej Hershey Ltd. contributed approximately $7.3 million. In June 2010, the Company and the noncontrolling interests executed a rights agreement with Godrej Hershey Ltd. in the form of unsecured compulsorily and fully convertible debentures. The Company contributed cash of approximately $11.1 million and the noncontrolling interests contributed $9.3 million associated with the rights agreement. The ownership interest percentages in Godrej Hershey Ltd. did not change significantly as a result of these contributions. The noncontrolling interests in Godrej Hershey Ltd. are included in the equity section of the Consolidated Balance Sheets.

We also own a 51% controlling interest in Hershey do Brasil under a cooperative agreement with Pandurata Netherlands B.V. (“Bauducco”), a leading manufacturer of baked goods in Brazil whose primary brand is Bauducco. In September 2010, the Company contributed cash of approximately $1.0 million to Hershey do Brasil and Bauducco contributed approximately $0.9 million. The noncontrolling interest in Hershey do Brasil is included in the equity section of the Consolidated Balance Sheets.

The decrease in noncontrolling interests in subsidiaries from $35.3 million as of December 31, 2010 to $33.6 million as of April 3, 2011 reflected the noncontrolling interests’ share of losses of these entities, partially offset by the impact of currency translation adjustments. The noncontrolling interests’ share of losses in subsidiaries increased income by $2.1 million for the three months ended April 3, 2011 and by $3.7 million for the three months ended April 4, 2010 and was included in selling, marketing and administrative expenses.

4. STOCK COMPENSATION PLANS

The Hershey Company Equity and Incentive Compensation Plan ("EICP") is the plan under which grants using shares for compensation and incentive purposes are made. The following table summarizes our stock compensation costs:

	For the Three Months Ended	
	April 3, 2011	April 4, 2010