

HERSHEY CO
Form 10-K
February 19, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2007

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 Number 1-183

Registrant, State of Incorporation, Address and Telephone Number

THE HERSHEY COMPANY

(a Delaware corporation)

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100 Crystal A Drive

Hershey, Pennsylvania 17033

(717) 534-4200

I.R.S. Employer Identification Number 23-0691590

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:
Common Stock, one dollar par value
Securities registered pursuant to Section 12(g) of the Act:

Name of each exchange on which registered:
New York Stock Exchange
Class B Common Stock, one dollar par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Common Stock, one dollar par value \$7,787,097,379 as of July 1, 2007.

Class B Common Stock, one dollar par value \$10,275,759 as of July 1, 2007. While the Class B Common Stock is not listed for public trading on any exchange or market system, shares of that class are convertible into shares of Common Stock at any time on a share-for-share basis. The market value indicated is calculated based on the closing price of the Common Stock on the New York Stock Exchange on July 1, 2007.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

Common Stock, one dollar par value 166,508,449 shares, as of February 12, 2008.

Class B Common Stock, one dollar par value 60,805,727 shares, as of February 12, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the Company's Proxy Statement for the Company's 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

Table of Contents

PART I

Item 1. BUSINESS
Company Overview

The Hershey Company was incorporated under the laws of the State of Delaware on October 24, 1927 as a successor to a business founded in 1894 by Milton S. Hershey. In this report, the terms Company, we, us, or our mean The Hershey Company and its wholly-owned subsidiaries and entities in which it has a controlling financial interest, unless the context indicates otherwise.

We are the largest North American manufacturer of quality chocolate and sugar confectionery products. Our principal product groups include confectionery and snack products; gum and mint refreshment products; and food and beverage enhancers such as baking ingredients, toppings and beverages. In addition to our traditional confectionery products, we offer a range of products specifically developed to address the health and well-being needs of health-conscious consumers.

Reportable Segment

We operate as a single reportable segment in manufacturing, marketing, selling and distributing various package types of chocolate candy, sugar confectionery, refreshment and snack products, and food and beverage enhancers under more than 60 brand names. Our five operating segments comprise geographic regions including the United States, Canada, Mexico, Brazil and other international locations, such as Japan, Korea, the Philippines, India and China. We market confectionery products in approximately 50 countries worldwide.

For segment reporting purposes, we aggregate our operations in the Americas, which comprise the United States, Canada, Mexico and Brazil. We base this aggregation on similar economic characteristics, and similar products and services, production processes, types or classes of customers, distribution methods, and the similar nature of the regulatory environment in each location. We aggregate our other international operations with the Americas to form one reportable segment. When combined, our other international operations share most of the aggregation criteria and represent less than 10% of consolidated revenues, operating profits and assets.

Selling and Marketing Organization

Our selling and marketing organization is comprised of Hershey North America, Hershey International and the Global Marketing Group. This organization is designed to:

Leverage our marketing and sales leadership in the United States and Canada;

Focus on key strategic growth areas in global markets; and

Build capabilities that capitalize on unique consumer and customer trends.

Hershey North America

Hershey North America has responsibility for continuing to build our confectionery leadership, while capitalizing on our scale in the U.S. and Canada. This organization leverages our ability to capitalize on the unique consumer and customer trends within each country. This includes developing and growing our business in our chocolate, sugar confectionery, snacks, refreshment, food and beverage enhancers, and food service product lines.

Hershey International

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Hershey International markets confectionery products, and food and beverage enhancers worldwide and has responsibility for pursuing profitable growth opportunities in key markets, primarily in Latin America and

Table of Contents

Asia. This organization is responsible for international subsidiaries that manufacture, import, market, sell and distribute chocolate, confectionery and beverage products in Mexico and Brazil. Hershey International manufactures and distributes confectionery products, snacks and beverages in India through Godrej Hershey Foods and Beverages Company under an agreement entered into in May 2007 with Godrej Beverages and Foods, Ltd., one of India's largest consumer goods, confectionery and food companies.

Global Marketing Group

Our Global Marketing Group has responsibility for building global brands, developing transformational growth platforms and ensuring collaborative marketing excellence across the Company. This organization also develops market-specific insights, strategies and platform innovation for Hershey International, helping to build our brands globally and drive growth in high-potential emerging markets. This organization develops consumer and customer insights, new products and innovative marketing communications. The Global Marketing Group is also responsible for brand positioning, portfolio strategy, pricing strategy and corporate social responsibility.

A component of the Global Marketing Group, The Hershey Experience, manages our catalog sales and our retail operations within the United States that include Hershey's Chocolate World in Hershey, Pennsylvania, Hershey's Times Square in New York, New York and Hershey's Chicago in Chicago, Illinois.

Products

United States

The primary chocolate and confectionery products we sell in the United States include the following:

Under the *HERSHEY'S* brand franchise:

<i>HERSHEY'S</i> milk chocolate bar	<i>HERSHEY'S COOKIES N CRÈME</i> candy bar
<i>HERSHEY'S</i> milk chocolate bar with almonds	<i>HERSHEY'S POT OF GOLD</i> boxed chocolates
<i>HERSHEY'S</i> Extra Dark chocolates	<i>HERSHEY'S SUGAR FREE</i> chocolate candy
<i>HERSHEY'S MINIATURES</i> chocolate candy	<i>HERSHEY'S S MORES</i> candy bar
<i>HERSHEY'S NUGGETS</i> chocolates	<i>HERSHEY'S HUGS</i> candies
<i>HERSHEY'S STICKS</i> chocolates	<i>HERSHEY'S</i> organic chocolates

Under the *REESE'S* brand franchise:

<i>REESE'S</i> peanut butter cups	<i>REESE'S SUGAR FREE</i> peanut butter cups
<i>REESE'S PIECES</i> candy	<i>REESE'S</i> crispy crunchy bar
<i>REESE'S BIG CUP</i> peanut butter cups	<i>REESE'S WHIPPS</i> nougat bar
<i>REESE'S NUTRAGEOUS</i> candy bar	<i>REESESTICKS</i> wafer bars
	<i>FAST BREAK</i> candy bar

Under the *KISSES* brand franchise:

<i>HERSHEY'S KISSES</i> brand milk chocolates	<i>HERSHEY'S KISSES</i> brand milk chocolates filled with caramel
	<i>HERSHEY'S KISSES</i> brand chocolates filled with chocolate truffle

HERSHEY'S KISSES brand milk chocolates filled with peanut butter

<i>HERSHEY'S KISSES</i> brand milk chocolates with almonds	<i>HERSHEY'S KISSABLES</i> brand chocolate candies
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Our other chocolate and confectionery products in the United States include the following:

<i>5th AVENUE</i> candy bar	<i>MILK DUDS</i> candy	<i>TAKE5</i> candy bar
<i>ALMOND JOY</i> candy bar	<i>MOUNDS</i> candy bar	

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CADBURY chocolates

MR. GOODBAR candy bar

TWIZZLERS candy
WHATCHAMACALLIT
candy bar

2

Table of Contents

<i>CARAMELLO</i> candy bar	<i>PAYDAY</i> peanut caramel bar	<i>WHOPPERS</i> malted milk balls
<i>GOOD & PLENTY</i> candy	<i>ROLO</i> caramels in milk chocolate	<i>YORK</i> peppermint pattie
<i>HEATH</i> toffee bar	<i>SKOR</i> toffee bar	<i>YORK</i> sugar free peppermint pattie
<i>JOLLY RANCHER</i> candy	<i>SPECIAL DARK</i> chocolate bar	<i>ZAGNUT</i> candy bar
<i>JOLLY RANCHER</i> sugar free hard candy	<i>SYMPHONY</i> milk chocolate bar	<i>ZERO</i> candy bar
<i>KIT KAT</i> wafer bar	<i>SYMPHONY</i> milk chocolate bar with almonds and toffee	

We also sell products in the United States under the following product lines:

Premium products

Our line of premium chocolate and confectionery offerings includes *CACAO RESERVE BY HERSHEY S* chocolate bars and drinking cocoa mixes. Artisan Confections Company, a wholly-owned subsidiary of The Hershey Company, markets *SCHARFFEN BERGER* high-cacao dark chocolate products, *JOSEPH SCHMIDT* handcrafted chocolate gifts and *DAGOBA* natural and organic chocolate products.

Snack products

Our snack products include *HERSHEY S SNACKSTERS* snack mix; *HERSHEY S*, *ALMOND JOY*, *REESE S*, and *YORK* cookies; *HERSHEY S* and *REESE S* granola bars; and *MAUNA LOA* macadamia snack nuts and cookies in several varieties.

Refreshment products

Our line of refreshment products includes *ICE BREAKERS* mints and chewing gum, *BREATH SAVERS* mints, *BUBBLE YUM* bubble gum and *YORK* mints.

Food and beverage enhancers

Food and beverage enhancers include *HERSHEY S BAKE SHOPPE*, *HERSHEY S*, *REESE S*, *HEATH*, and *SCHARFFEN BERGER* baking products. Our toppings and sundae syrups include *HEATH* and *HERSHEY S*. We sell hot cocoa mix under the *HERSHEY S*, *HERSHEY S GOODNIGHT HUGS* and *HERSHEY S GOODNIGHT KISSES* brand names.

Canada

Principal products we manufacture and sell in Canada are *HERSHEY S* milk chocolate bars and milk chocolate bars with almonds; *OH HENRY!* candy bars; *REESE PEANUT BUTTER CUPS* candy; *HERSHEY S KISSES* candy bar; *KISSABLES* brand chocolate candies; *TWIZZLERS* candy; *GLOSETTE* chocolate-covered raisins, peanuts and almonds; *JOLLY RANCHER* candy; *WHOPPERS* malted milk balls; *SKOR* toffee bars; *EAT MORE* candy bars; *POT OF GOLD* boxed chocolates; and *CHIPITS* chocolate chips.

Mexico

We manufacture, import, market, sell and distribute chocolate and confectionery products in Mexico including *HERSHEY S*, *KISSES*, *JOLLY RANCHER*, and *PELÓN PELO RICO* chocolate, confectionery and beverage items.

Table of Contents

Brazil

We manufacture, import and market chocolate and confectionery products in Brazil including *HERSHEY'S* chocolate and confectionery items and *IO-IO* items.

India

We manufacture, market, sell and distribute confectionery, snack and beverage products in India including *NUTRINE* and *GODREJ* confectionery and beverage products.

Customers

Full-time sales representatives and food brokers sell our products to our customers. Our customers are mainly wholesale distributors, chain grocery stores, mass merchandisers, chain drug stores, vending companies, wholesale clubs, convenience stores, dollar stores, concessionaires, department stores and natural food stores. Our customers then resell our products to end-consumers in over 2 million retail outlets in North America and other locations worldwide. In 2007, sales to McLane Company, Inc., one of the largest wholesale distributors in the United States to convenience stores, drug stores, wholesale clubs and mass merchandisers, amounted to approximately 26% of our total net sales. McLane Company, Inc. is the primary distributor of our products to Wal-Mart Stores, Inc.

Marketing Strategy and Seasonality

The foundation of our marketing strategy is our strong brand equities, product innovation, the consistently superior quality of our products, our manufacturing expertise and mass distribution capabilities. We also devote considerable resources to the identification, development, testing, manufacturing and marketing of new products. We have a variety of promotional programs for our customers as well as advertising and promotional programs for consumers of our products. We stimulate sales of certain products with promotional programs at various times throughout the year. Our sales are typically higher during the third and fourth quarters of the year, representing seasonal and holiday-related sales patterns.

Product Distribution

In conjunction with our sales and marketing efforts, our efficient product distribution network helps us maintain sales growth and provide superior customer service. We plan optimum stock levels and work with our customers to set reasonable delivery times. Our distribution network provides for the efficient shipment of our products from our manufacturing plants to distribution centers strategically located throughout the United States, Canada and Mexico. We primarily use common carriers to deliver our products from these distribution points to our customers.

Price Changes

We change prices and weights of our products when necessary to accommodate changes in manufacturing costs, the competitive environment and profit objectives, while at the same time maintaining consumer value. Price increases and weight changes help to offset increases in our input costs, including raw and packaging materials, fuel, utilities, transportation, and employee benefits.

In April 2007, we announced an increase of approximately four percent to five percent in the wholesale prices of our domestic confectionery line, effective immediately. The price increase applied to our standard bar, king-size bar, 6-pack and vending lines. These products represent approximately one-third of our U.S. confectionery portfolio. This action was implemented to help partially offset increases in input costs, including raw and packaging materials, fuel, utilities and transportation.

Table of Contents

We announced a combination of price increases and weight changes on certain *JOLLY RANCHER* and *TWIZZLERS* candy and chocolate packaged candy items in November 2005. These changes went into effect in December 2005 and early 2006 and represented a weighted-average price increase of approximately one percent over the entire domestic product line when fully effective in the second quarter of 2006.

In December 2004, we announced an increase in the wholesale prices of approximately half of our domestic confectionery line. Changes that were effective in January 2005 represented a weighted-average increase of approximately six percent on our standard bar, king-size bar, 6-pack and vending lines. Changes that were effective in February 2005 represented a weighted-average price increase of approximately four percent on packaged candy. The price increases announced in December 2004 represented an average increase of three percent over the entire domestic product line.

Raw Materials

Cocoa is the most significant raw material we use to produce our chocolate products. We buy a mix of cocoa beans and cocoa products, including cocoa liquor, cocoa butter and cocoa powder, to meet manufacturing requirements. Cocoa beans and cocoa products are purchased directly from third party suppliers. Cocoa beans are grown principally in Far Eastern, West African and South American equatorial regions. West Africa accounts for approximately 70 percent of the world's supply of cocoa beans. Cocoa beans are not uniform, and the various grades and varieties reflect the diverse agricultural practices and natural conditions found in many growing areas.

Historically there have been instances of weather catastrophes, crop disease, civil disruptions, embargoes and other problems in cocoa-producing countries that have caused price fluctuations, but have never resulted in total loss of a particular producing country's cocoa crop and/or exports. In the event that such a disruption would occur in any given country, we believe cocoa from other producing countries and from current physical cocoa stocks in consuming countries would provide a significant supply buffer.

Cocoa beans are processed to produce cocoa liquor, cocoa butter and cocoa powder. Beginning in 2008, we will predominately purchase cocoa products to meet our manufacturing requirements rather than processing cocoa beans. This change to our manufacturing process is the result of a comprehensive, supply chain transformation program to enhance manufacturing, sourcing and customer service capabilities that we initiated in 2007, along with ingredient sourcing arrangements entered into during 2007.

During 2007, cocoa prices traded in a range between 74¢ and 95¢ per pound, based on the New York Board of Trade futures contract. The table below shows annual average cocoa prices, and the highest and lowest monthly averages for each of the calendar years indicated. The prices are the monthly average of the quotations at noon of the three active futures trading contracts closest to maturity on the New York Board of Trade.

	Cocoa Futures Contract Prices				
	(cents per pound)				
	2007	2006	2005	2004	2003
Annual Average	86.1	70.0	68.3	68.7	77.8
High	94.6	74.9	78.7	76.8	99.8
Low	74.5	67.1	63.5	62.1	65.6

Source: International Cocoa Organization Quarterly Bulletin of Cocoa Statistics

Our costs will not necessarily reflect market price fluctuations because of our forward purchasing practices, premiums and discounts reflective of varying delivery times, and supply and demand for our specific varieties and grades of cocoa beans, cocoa liquor, cocoa butter and cocoa powder. As a result, the average futures contract prices are not necessarily indicative of our average cost of cocoa beans or cocoa products.

Table of Contents

The Farm Security and Rural Investment Act of 2002, which is a six-year farm bill, impacts the prices of sugar, corn, peanuts and dairy products because it sets price support levels for these commodities.

During 2007, dairy prices were significantly higher, starting the year at nearly 13¢ per pound and rising to 22¢ per pound on a class II fluid milk basis. Tight global supplies were driven by drought in Australia as well as reduced exports from the European Union due to the elimination of subsidies. Also, input costs for U.S. producers were up due to heightened grain prices impacting feed costs. Additionally, the United States Department of Agriculture adjusted their mechanism for establishing market prices of nonfat dry milk, further escalating costs.

The price of sugar is subject to price supports under U.S. farm legislation. This legislation establishes import quotas and duties to support the price of sugar. As a result, sugar prices paid by users in the U.S. are currently substantially higher than prices on the world sugar market. In 2007, sugar supplies in the U.S. improved due to larger sugar beet and sugar cane crops. As a result, refined sugar prices declined from 31¢ to 29¢ per pound. Our costs for sugar will not necessarily reflect market price fluctuations primarily because of our forward purchasing and hedging practices.

Peanut prices in the U.S. began the year around 42¢ per pound but gradually increased during the year to 53¢ per pound due to supply tightness driven by lower planted acreage and dry conditions during the growing season. Almond prices began the year at \$2.50 per pound and declined to \$2.20 per pound during the year driven by supply increases due to a record crop which produced 19% more volume than the prior year.

We attempt to minimize the effect of future price fluctuations related to the purchase of major raw materials and certain energy requirements primarily through forward purchasing to cover our future requirements, generally for periods from 3 to 24 months. We enter into futures contracts to manage price risks for cocoa beans and cocoa products, sugar, corn sweeteners, natural gas, fuel oil and certain dairy products. However, the dairy markets are not as developed as many of the other commodities markets and, therefore, it is not possible to hedge our costs for dairy products by taking forward positions to extend coverage for longer periods of time. Currently, active futures contracts are not available for use in pricing our other major raw material requirements. For more information on price risks associated with our major raw material requirements, see *Commodities Price Risk Management and Futures Contracts* on page 39.

Competition

Many of our brands enjoy wide consumer acceptance and are among the leading brands sold in the marketplace. We sell our brands in a highly competitive market with many other multinational, national, regional and local firms. Some of our competitors are much larger firms that have greater resources and more substantial international operations.

Table of Contents

Trademarks, Service Marks and License Agreements

We own various registered and unregistered trademarks and service marks and have rights under licenses to use various trademarks that are of material importance to our business.

We have license agreements with several companies to manufacture and/or sell certain products. Our rights under these agreements are extendible on a long-term basis at our option. Our most significant licensing agreements are as follows:

Company	Type	Brand	Location	Requirements
Cadbury Schweppes p.l.c. and affiliates	License to manufacture and/or sell and distribute confectionery products	<i>YORK</i>	Worldwide	None
		<i>PETER PAUL ALMOND JOY</i>		
		<i>PETER PAUL MOUNDS CADBURY</i>		
		<i>CARAMELLO</i>		
Société des Produits Nestlé SA	License to manufacture and distribute confectionery products	<i>KIT KAT</i>	United States	Minimum sales requirement exceeded in 2007
		<i>ROLO</i>		
		<i>GOOD & PLENTY</i>		
		<i>HEATH</i>		
Huhtamäki Oy affiliate	Certain trademark licenses for confectionery products	<i>JOLLY RANCHER</i>	Worldwide	None
		<i>MILK DUDS</i>		
		<i>PAYDAY</i>		

Various dairies throughout the United States produce and sell *HERSHEY S* chocolate and strawberry flavored milks under license. We also grant trademark licenses to third parties to produce and sell baking and various other products primarily under the *HERSHEY S* and *REESE S* brand names.

Backlog of Orders

We manufacture primarily for stock and fill customer orders from finished goods inventories. While at any given time there may be some backlog of orders, this backlog is not material in respect to our total annual sales, nor are the changes from time to time significant.

Research and Development

We engage in a variety of research and development activities. We develop new products, improve the quality of existing products, improve and modernize production processes, and develop and implement new technologies to enhance the quality and value of both current and proposed product lines. Information concerning our research and development expense is contained in Note 1 of the Notes to the Consolidated Financial

Statements (Item 8. Financial Statements and Supplementary Data).

Table of Contents

Food Quality and Safety Regulation

The manufacture and sale of consumer food products is highly regulated. In the United States, our activities are subject to regulation by various government agencies, including the Food and Drug Administration, the Department of Agriculture, the Federal Trade Commission, the Department of Commerce and the Environmental Protection Agency, as well as various state and local agencies. Similar agencies also regulate our businesses outside of the United States.

Environmental Considerations

Investments were made in 2007 to comply with environmental laws and regulations. These investments were not material with respect to our capital expenditures, earnings or competitive position.

Employees

As of December 31, 2007, we employed approximately 11,000 full-time and 1,800 part-time employees worldwide. Collective bargaining agreements covered approximately 4,200 employees for which agreements covering approximately 25% of these employees, primarily outside of the United States, will expire during 2008. We believe that our employee relations are good.

Financial Information by Geographic Area

Our principal operations and markets are located in the United States. The percentage of total consolidated net sales for our businesses outside of the United States was 13.8% for 2007, 10.9% for 2006 and 10.9% for 2005. The percentage of total consolidated assets outside of the United States as of December 31, 2007 was 16.2% and as of December 31, 2006 was 13.8%. Operating profit margins vary among individual products and product groups.

Available Information

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. We file or furnish annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission (SEC). You may obtain a copy of any of these reports, free of charge, from the Investor Relations section of our website, www.hersheys.com shortly after we file or furnish the information to the SEC.

You may also obtain a copy of any of these reports directly from the SEC. You may read and copy any material we file or furnish with the SEC at their Office of Investor Education and Advocacy, located at 100 F Street N.E., Washington, D.C. 20549. The phone number for information about the operation of the SEC Office of Investor Education and Advocacy is 1-800-732-0330 (if you are calling from within the United States), or 202-551-8090. Because we electronically file our reports, you may also obtain this information from the SEC internet website at www.sec.gov. You can obtain additional contact information for the SEC on their website.

Our Company has a Code of Ethical Business Conduct that applies to our Board of Directors, all company officers and employees, including, without limitation, our Chief Executive Officer and senior financial officers (including the Chief Financial Officer, Chief Accounting Officer and persons performing similar functions). You can obtain a copy of our Code of Ethical Business Conduct from the Investor Relations section of our website, www.hersheys.com. If we change or waive any portion of the Code of Ethical Business Conduct that applies to any of our directors, executive officers or senior financial officers, we will post that information on our website within four business days. In the case of a waiver, such information will include the name of the person to whom the waiver applied, along with the date and type of waiver.

Table of Contents

We also post our Corporate Governance Guidelines and Charters for each of the Board's standing committees in the Investor Relations section of our website, www.hersheys.com. The Board of Directors adopted each of these guidelines and charters. If you are a beneficial owner of Common Stock or Class B Common Stock (Class B Stock), we will provide you with a free copy of the Code of Ethical Business Conduct, the Corporate Governance Guidelines or the Charter of any standing committee of the Board of Directors, upon request. We will also give any stockholder a copy of one or more of the Exhibits listed in Part IV of this report, upon request. We charge a small copying fee for these exhibits to cover our costs. To request a copy of any of these documents, you can contact us at The Hershey Company, Attn: Investor Relations Department, 100 Crystal A Drive, Hershey, Pennsylvania 17033-0810.

Item 1A. RISK FACTORS

We are subject to changing economic, competitive, regulatory and technological risks and uncertainties because of the nature of our operations. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we note the following factors that, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied in this report. Many of the forward-looking statements contained in this document may be identified by the use of words such as "intend," "believe," "expect," "anticipate," "should," "planned," "projected," "estimated" and "potential," among others. Among the factors that could cause our actual results to differ materially from the results projected in our forward-looking statements are the risk factors described below.

Annual savings from initiatives to transform our supply chain and advance our value-enhancing strategy may be less than we expect.

In February 2007, we announced a comprehensive, supply chain transformation program which includes a phased three-year plan to enhance our manufacturing, sourcing and customer service capabilities. We expect ongoing annual savings from this program and previous initiatives to generate significant savings to invest in our growth initiatives and to advance our value-enhancing strategy. If ongoing annual savings do not meet our expectations, we may not obtain the anticipated future benefits.

Increases in raw material and energy costs could affect future financial results.

We use many different commodities for our business, including cocoa beans, cocoa products, sugar, dairy products, peanuts, almonds, corn sweeteners, natural gas and fuel oil.

Commodities are subject to price volatility and changes in supply caused by:

Commodity market fluctuations;

Currency exchange rates;

Imbalances between supply and demand;

The effect of weather on crop yield;

Speculative influences;

Trade agreements among producing and consuming nations;

Political unrest in producing countries; and

Changes in governmental agricultural programs and energy policies.

Although we use forward contracts and commodity futures contracts, where possible, to hedge commodity prices, commodity price increases ultimately result in corresponding increases in our raw material and energy costs. If we are unable to offset cost increases for major raw materials and energy, there could be a negative impact on our results of operations and financial condition.

Table of Contents

Price increases may not be sufficient to offset cost increases and maintain profitability.

We may be able to pass some or all raw material, energy and other input cost increases to customers by increasing the selling prices of our products or decreasing the size of our products; however, higher product prices or decreased product size may also result in a reduction in sales volume. If we are not able to increase our selling prices or reduce product sizes sufficiently to offset increased raw material, energy or other input costs, including packaging, direct labor, overhead and employee benefits, or if our sales volume decreases significantly, there could be a negative impact on our results of operations and financial condition.

Implementation of our supply chain transformation program may not occur within the anticipated timeframe and/or may exceed our cost estimates.

We announced a comprehensive supply chain transformation program in February 2007 which is expected to be completed by December 2009. We estimate that this program will incur pre-tax charges and non-recurring project implementation costs of \$525 million to \$575 million over the three-year period. Completion of this program is subject to multiple operating and executional risks, including coordination of manufacturing changes, production line startups, cross-border legal, regulatory and political issues, and foreign currency exchange risks, among others. If we are not able to complete the program initiatives within the anticipated timeframe and within our cost estimates, our results of operations and financial condition could be negatively impacted.

Issues related to the quality and safety of our products, ingredients or packaging could cause a product recall, resulting in harm to the Company's reputation and negatively impacting our operating results.

In order to sell our iconic, branded products, we need to maintain a good reputation with our customers and consumers. Issues related to quality and safety of our products, ingredients or packaging, could jeopardize our Company's image and reputation. Negative publicity related to these types of concerns, or related to product contamination or product tampering, whether valid or not, might negatively impact demand for our products, or cause production and delivery disruptions. We may need to recall products if any of our products become unfit for consumption. In addition, we could potentially be subject to litigation or government actions, which could result in payments of fines or damages. Costs associated with these potential actions could negatively affect our operating results.

A product recall and related temporary plant closure during the fourth quarter of 2006 was caused by a contaminated ingredient purchased from an outside supplier. We have filed a claim for damages and are currently in litigation. A receivable was included in prepaid expenses and other current assets related to the anticipated recovery of damages. Future developments in this case could impact our ability to recover the costs we incurred for the recall and temporary plant closure from responsible third-parties.

Future developments related to the investigation by government regulators of alleged pricing practices by members of the confectionery industry could impact our reputation, the regulatory environment under which we operate, and our operating results.

Government regulators are investigating alleged pricing practices by members of the confectionery industries in certain jurisdictions. We are cooperating fully with all relevant authorities. These allegations could have a negative impact on our Company's reputation. We may also be subject to subsequent litigation or government action, including payment of fines or damages. We may incur increased costs associated with this investigation. In addition, our costs could increase if we would be required to pay fines or damages, or institute additional, new, government-mandated regulatory controls. These possible actions could negatively impact our future operating results.

Table of Contents

Pension costs could increase at a higher than anticipated rate.

Changes in interest rates or in the market value of plan assets could affect the funded status of our pension plans. This could cause volatility in our benefits costs and increase future funding requirements of our pension plans. Additionally, we could incur pension settlement losses if a significant number of employees who have retired or have left the company decide to withdraw substantial lump sums from their pension accounts. Pension settlement losses of approximately \$11.8 million were incurred during 2007 and we anticipate additional settlement costs in 2008. The fair value of our pension plan assets exceeded pension benefits obligations as of December 31, 2007. However, a significant increase in future funding requirements could have a negative impact on our results of operations, financial condition and cash flows.

Increases in our stock price could increase expenses.

Changes in the price of our Common Stock expose us to market risks. Expenses for incentive compensation could increase due to an increase in the price of our Common Stock.

Market demand for new and existing products could decline.

We operate in highly competitive markets and rely on continued demand for our products. To generate revenues and profits, we must sell products that appeal to our customers and to consumers. Continued success is dependent on product innovation, including maintaining a strong pipeline of new products, effective retail execution, appropriate advertising campaigns and marketing programs, and the ability to secure adequate shelf space at retail locations. In addition, success depends on our response to consumer trends, consumer health concerns, including obesity and the consumption of certain ingredients, and changes in product category consumption and consumer demographics.

Our largest customer, McLane Company, Inc., accounted for approximately 26% of our total net sales in 2007 reflecting the continuing consolidation of our customer base. In this environment, there continue to be competitive product and pricing pressures, as well as challenges in maintaining profit margins. We must maintain mutually beneficial relationships with our key customers, including retailers and distributors, to compete effectively. McLane Company, Inc. is one of the largest wholesale distributors in the United States to convenience stores, drug stores, wholesale clubs and mass merchandisers, including Wal-Mart Stores, Inc.

Increased marketplace competition could hurt our business.

The global confectionery packaged goods industry is intensely competitive, as is the broader snack market. Some of our competitors are much larger firms that have greater resources and more substantial international operations. In order to protect our existing market share or capture increased market share in this highly competitive retail environment, we may be required to increase expenditures for promotions and advertising, and continue to introduce and establish new products. Due to inherent risks in the marketplace associated with advertising and new product introductions, including uncertainties about trade and consumer acceptance, increased expenditures may not prove successful in maintaining or enhancing our market share and could result in lower sales and profits. In addition, we may incur increased credit and other business risks because we operate in a highly competitive retail environment.

Changes in governmental laws and regulations could increase our costs and liabilities or impact demand for our products.

Changes in laws and regulations and the manner in which they are interpreted or applied may alter our business environment. This could affect our results of operations or increase our liabilities. These negative impacts could result from changes in food and drug laws, laws related to advertising and marketing practices, accounting standards, taxation requirements, competition laws, employment laws and environmental laws,

Table of Contents

among others. It is possible that we could become subject to additional liabilities in the future resulting from changes in laws and regulations that could result in an adverse effect on our results of operations and financial condition.

International operations could fluctuate unexpectedly and adversely impact our business.

In 2007, we derived approximately 13.8% of our net sales from customers located outside the United States. Some of our assets are also located outside of the United States. As part of our global growth strategy, we are increasing our investments outside of the United States, particularly in India and China. As a result, we are subject to numerous risks and uncertainties relating to international sales and operations, including:

Unforeseen global economic and environmental changes resulting in business interruption, supply constraints, inflation, deflation or decreased demand;

Difficulties and costs associated with complying with, and enforcing remedies under a wide variety of complex laws, treaties and regulations;

Different regulatory structures and unexpected changes in regulatory environments;

Political and economic instability, including the possibility of civil unrest;

Nationalization of our properties by foreign governments;

Tax rates that may exceed those in the United States and earnings that may be subject to withholding requirements and incremental taxes upon repatriation;

Potentially negative consequences from changes in tax laws;

The imposition of tariffs, quotas, trade barriers, other trade protection measures and import or export licensing requirements;

Increased costs, disruptions in shipping or reduced availability of freight transportation;

The impact of currency exchange rate fluctuations between the U.S. dollar and foreign currencies; and

Failure to gain sufficient profitable scale in certain international markets resulting in losses from impairment or sale of assets.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents**Item 2. PROPERTIES**

Our principal properties include the following:

Country	Location	Type	Status (Own/Lease)
United States	Hershey, Pennsylvania	Manufacturing confectionery products, and food and beverage enhancers	Own
	(3 principal plants)		
	Lancaster, Pennsylvania	Manufacturing confectionery products	Own
	Oakdale, California	Manufacturing confectionery products, and food and beverage enhancers	Own*
	Robinson, Illinois	Manufacturing confectionery and snack products, and food and beverage enhancers	Own
	Stuarts Draft, Virginia	Manufacturing confectionery products, and food and beverage enhancers	Own
	Edwardsville, Illinois	Distribution	Own
	Palmyra, Pennsylvania	Distribution	Own
	Redlands, California	Distribution	Own**
Canada	Smiths Falls, Ontario	Manufacturing confectionery products, and food and beverage enhancers	Own*
	Mississauga, Ontario	Distribution	Lease

* The Oakdale, California manufacturing facility ceased production in January 2008. The Smiths Falls, Ontario manufacturing facility is currently expected to cease production in the first quarter of 2009.

** We expect to sell the Redlands, California facility in 2008 as part of our global supply chain transformation program and enter into a leasing arrangement for the facility for a period necessary to meet our continued operating requirements.

In addition to the locations indicated above, we are constructing a manufacturing facility for confectionery products in Monterrey, Mexico which will begin operations in 2008. We also own or lease several other properties and buildings worldwide which we use for manufacturing and for sales, distribution and administrative functions. Our facilities are well maintained. These facilities generally have adequate capacity and can accommodate seasonal demands, changing product mixes and certain additional growth. The largest facilities are located in Hershey, Pennsylvania. Many additions and improvements have been made to these facilities over the years and they include equipment of the latest type and technology.

Table of Contents

Item 3. LEGAL PROCEEDINGS

In connection with its pricing practices, the Company is the subject of an antitrust investigation by the Canadian Competition Bureau, and has received a request for information from the European Commission. In addition, the U.S. Department of Justice is conducting an inquiry. The Company is also party to approximately 50 related civil antitrust suits in the United States and three in Canada. Each claim contains class action allegations, instituted on behalf of consumers and, in some cases, by certain companies that purchase chocolate for resale, that allege conspiracies in restraint of trade and challenge the pricing and/or purchasing practices of the Company. Several other chocolate confectionery companies are the subject of investigations and/or inquiries by the government entities referenced above and have also been named as defendants in the same litigation. One Canadian wholesaler is also a subject of the Canadian investigation and is a defendant in certain of the lawsuits. While it is not feasible to predict the final outcome of these proceedings, in our opinion they should not have a material adverse effect on the financial position, liquidity or results of operations of the Company. The Company is cooperating with the government investigations and inquiries and intends to defend the lawsuits vigorously.

We have no other material pending legal proceedings, other than ordinary routine litigation incidental to our business.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Table of Contents**PART II****Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

We paid \$252.3 million in cash dividends on our Common Stock and Class B Stock in 2007 and \$235.1 million in 2006. The annual dividend rate on our Common Stock in 2007 was \$1.19 per share, an increase of 10.2% over the 2006 rate of \$1.08 per share. The 2007 dividend increase represented the 33rd consecutive year of Common Stock dividend increases.

On February 13, 2008, our Board of Directors declared a quarterly dividend of \$.2975 per share of Common Stock payable on March 14, 2008, to stockholders of record as of February 25, 2008. It is the Company's 313th consecutive Common Stock dividend. A quarterly dividend of \$.2678 per share of Class B Stock also was declared.

Our Common Stock is listed and traded principally on the New York Stock Exchange (NYSE) under the ticker symbol HSY. Approximately 372.0 million shares of our Common Stock were traded during 2007. The Class B Stock is not publicly traded.

The closing price of our Common Stock on December 31, 2007 was \$39.40. There were 40,901 stockholders of record of our Common Stock and our Class B Stock as of December 31, 2007.

The following table shows the dividends paid per share of Common Stock and Class B Stock and the price range of the Common Stock for each quarter of the past two years:

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
2007				
1st Quarter	\$.2700	\$.2425	\$ 56.37	\$ 49.70
2nd Quarter	.2700	.2425	56.75	49.81
3rd Quarter	.2975	.2678	51.29	44.03
4th Quarter	.2975	.2678	47.41	38.21
Total	\$ 1.1350	\$ 1.0206		
2006				
1st Quarter	\$.2450	\$.2200	\$ 55.44	\$ 50.62
2nd Quarter	.2450	.2200	57.65	48.20
3rd Quarter	.2700	.2425	57.30	50.48
4th Quarter	.2700	.2425	53.60	48.96
Total	\$ 1.0300	\$.9250		

* NYSE-Composite Quotations for Common Stock by calendar quarter.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Table of Contents**Issuer Purchases of Equity Securities**

Purchases of equity securities during the fourth quarter of the fiscal year ended December 31, 2007:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾ (in thousands of dollars)
October 1 through				
October 28, 2007	49,000	\$ 42.04		\$ 100,017
October 29 through				
November 25, 2007	69,000	\$ 41.69		\$ 100,017
November 26 through				
December 31, 2007	73,000	\$ 39.59		\$ 100,017
Total	191,000	\$ 40.98		

(1) In December 2006, our Board of Directors approved a \$250 million share repurchase program.

Table of Contents

Performance Graph

The following graph compares our cumulative total stockholder return (Common Stock price appreciation plus dividends, on a reinvested basis) over the last five fiscal years with the Standard & Poor's 500 Index and the Standard & Poor's Packaged Foods Index.

Comparison of Five Year Cumulative Total Return*

The Hershey Company, S&P 500 Index and

S&P Packaged Foods Index

*Hypothetical \$100 invested on December 31, 2002 in Hershey Common Stock, S&P 500 Index and S&P Packaged Foods Index, assuming reinvestment of dividends.

17

Table of Contents**Item 6. SELECTED FINANCIAL DATA****SIX-YEAR CONSOLIDATED FINANCIAL SUMMARY**

All dollar and share amounts in thousands except market price

and per share statistics

	5-Year Compound Growth Rate	2007	2006	2005	2004	2003	2002
Summary of Operations							
Net Sales	3.7%	\$ 4,946,716	4,944,230	4,819,827	4,416,389	4,162,987	4,131,647
Cost of Sales	5.2%	\$ 3,315,147	3,076,718	2,956,682	2,672,716	2,539,469	2,568,017
Selling, Marketing and Administrative	1.0%	\$ 895,874	860,378	912,986	867,104	841,105	853,048
Business Realignment and Impairment Charges, Net		\$ 276,868	14,576	96,537		23,357	27,552
Gain on Sale of Business(a)		\$				8,330	
Interest Expense, Net	14.3%	\$ 118,585	116,056	87,985	66,533	63,529	60,722
Provision for Income Taxes	(11.2)%	\$ 126,088	317,441	277,090	235,399	257,268	228,427
Income before Cumulative Effect of Accounting Change	(11.5)%	\$ 214,154	559,061	488,547	574,637	446,589	393,881
Cumulative Effect of Accounting Change		\$				7,368	
Net Income	(11.5)%	\$ 214,154	559,061	488,547	574,637	439,221	393,881
Net Income Per Share:							
Basic Class B Stock	(8.1)%	\$.87	2.19	1.85	2.11	1.55	1.33
Diluted Class B Stock	(8.0)%	\$.87	2.17	1.84	2.09	1.54	1.32
Basic Common Stock	(8.2)%	\$.96	2.44	2.05	2.31	1.71	1.47
Diluted Common Stock	(8.2)%	\$.93	2.34	1.97	2.24	1.66	1.43
Weighted-Average Shares Outstanding:							
Basic Common Stock		168,050	174,722	183,747	193,037	201,768	212,219
Basic Class B Stock		60,813	60,817	60,821	60,844	60,844	60,856
Diluted		231,449	239,071	248,292	256,934	264,532	275,429
Dividends Paid on Common Stock	7.4%	\$ 190,199	178,873	170,147	159,658	144,985	133,285
Per Share	12.5%	\$ 1.135	1.03	.93	.835	.7226	.63
Dividends Paid on Class B Stock	12.4%	\$ 62,064	56,256	51,088	46,089	39,701	34,536
Per Share	12.5%	\$ 1.0206	.925	.84	.7576	.6526	.5675
Net Income as a Percent of Net Sales, GAAP Basis		4.3%	11.3%	10.1%	13.0%	10.6%	9.5%
Non-GAAP Income as a Percent of Net Sales(b)		9.7%	11.5%	11.7%	11.6%	11.0%	10.3%
Depreciation	13.5%	\$ 292,658	181,038	200,132	171,229	158,933	155,384
Advertising	(4.7)%	\$ 127,896	108,327	125,023	137,931	145,387	162,874
Payroll	1.7%	\$ 645,083	645,480	647,825	614,037	585,419	594,372
Year-end Position and Statistics							
Capital Additions	7.4%	\$ 189,698	183,496	181,069	181,728	218,650	132,736
Capitalized Software Additions	3.7%	\$ 14,194	15,016	13,236	14,158	18,404	11,836
Total Assets	4.0%	\$ 4,247,113	4,157,565	4,262,699	3,794,750	3,577,026	3,483,442
Short-term Debt and Current Portion of Long-term Debt	98.0%	\$ 856,392	843,998	819,115	622,320	12,509	28,124
Long-term Portion of Debt	8.5%	\$ 1,279,965	1,248,128	942,755	690,602	968,499	851,800
Stockholders' Equity	(16.0)%	\$ 592,922	683,423	1,016,380	1,137,103	1,328,975	1,416,434
Full-time Employees		11,000	12,800	13,750	13,700	13,100	13,700
Return Measures							
Operating Return on Average Stockholders' Equity, GAAP Basis(c)		33.6%	65.8%	45.4%	46.6%	32.0%	30.3%
Non-GAAP Operating Return on Average Stockholders' Equity(c)		75.5%	66.7%	52.2%	41.6%	33.2%	32.8%
Operating Return on Average Invested Capital, GAAP Basis(c)		12.4%	26.4%	23.6%	25.7%	18.3%	17.6%
Non-GAAP Operating Return on Average Invested Capital(c)		25.0%	26.8%	26.8%	23.2%	18.9%	18.9%
Stockholders' Data							

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Outstanding Shares of Common Stock and Class B Stock at Year-end		227,050	230,264	240,524	246,588	259,059	268,440
Market Price of Common Stock at Year-end	3.2%	\$ 39.40	49.80	55.25	55.54	38.50	33.72
Range During Year		\$ 56.75 38.21	57.65 48.20	67.37 52.49	56.75 37.28	39.33 30.35	39.75 28.23

18

Table of Contents

- (a) Includes the gain on the sale of gum brands in 2003.
- (b) Non-GAAP Income as a Percent of Net Sales is calculated by dividing Non-GAAP Income excluding Items Affecting Comparability by Net Sales. A reconciliation of Net Income presented in accordance with U.S. generally accepted accounting principles (GAAP) to Non-GAAP Income excluding items affecting comparability is provided on pages 19 and 20, along with the reasons why we believe that the use of Non-GAAP Income provides useful information to investors.
- (c) The calculation method for these measures is described on page 48 under RETURN MEASURES. The Non-GAAP Operating Return measures are calculated using Non-GAAP Income excluding items affecting comparability. A reconciliation of Net Income presented in accordance with GAAP to Non-GAAP Income excluding items affecting comparability is provided on pages 19 and 20, along with the reasons why we believe the use of Non-GAAP Income provides useful information to investors.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS EXECUTIVE OVERVIEW

The year ended December 31, 2007 was very difficult. We experienced sharp increases in the cost of commodities, particularly costs for dairy products. These cost increases totaled approximately \$100 million and reduced gross margin by approximately 240 basis points. We also experienced increased competitive activity and changing consumer trends toward premium and trade-up product segments that affected our growth and profitability. In the face of these challenges, we did not have adequate product innovation and sufficient brand support or retail execution in our core U.S. market. Additionally, we continued to invest in key international markets.

Net sales were even with the prior year as increased sales from our international businesses and incremental sales from the acquisition of the Godrej Hershey Foods and Beverages Company were substantially offset by lower sales in the United States. Net sales declined in the United States primarily as a result of increased competitive activity and reduced retail velocity. Income and earnings per share were significantly lower than 2006 primarily as a result of a lower gross margin reflecting substantially higher input costs, principally related to higher costs for dairy products and certain other raw materials, and reduced price realization resulting from increased promotional costs, partly offset by lower costs associated with our supply chain productivity improvements. Increased investment spending for advertising and expansion of our international infrastructure also contributed to the lower income in 2007.

Non-GAAP Financial Measures Items Affecting Comparability

Our Management s Discussion and Analysis of Financial Condition and Results of Operations section includes certain measures of financial performance that are not defined by U.S. generally accepted accounting principles (GAAP). For each of these non-GAAP financial measures, we are providing below (1) the most directly comparable GAAP measure; (2) a reconciliation of the differences between the non-GAAP measure and the most directly comparable GAAP measure; (3) an explanation of why our management believes these non-GAAP measures provide useful information to investors; and (4) additional purposes for which we use these non-GAAP measures.

We believe that the disclosure of these non-GAAP measures provides investors with a better comparison of our year-to-year operating results. We exclude the effects of certain items from Income before Interest and Income Taxes (EBIT), Net Income and Income per Share-Diluted-Common Stock (EPS) when we evaluate key measures of our performance internally, and in assessing the impact of known trends and uncertainties on our business. We also believe that excluding the effects of these items provides a more balanced view of the underlying dynamics of our business.

Items affecting comparability include the impacts of charges or credits in 2007, 2006, 2005, 2003 and 2002 associated with our business realignment initiatives and a reduction of the income tax provision in 2004 resulting from adjustments to income tax contingency reserves.

Table of Contents

For the years ended December 31,

	EBIT	2007 Net Income	EPS	EBIT	2006 Net Income	EPS
In millions of dollars except per share amounts						
Results in accordance with GAAP	\$ 458.8	\$ 214.2	\$.93	\$ 992.6	\$ 559.1	\$ 2.34
Items affecting comparability:						
Business realignment charges included in cost of sales	123.1	80.9	.35	(3.2)	(2.0)	(.01)
Business realignment charges included in selling, marketing and administrative (SM&A)	12.6	7.8	.03	.3	.2	
Business realignment and impairment charges, net	276.9	178.9	.77	14.5	9.3	.04
Non-GAAP results excluding items affecting comparability	\$ 871.4	\$ 481.8	\$ 2.08	\$ 1,004.2	\$ 566.6	\$ 2.37

For the years ended December 31,

	2005	2004
EBIT		