

**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, 2010

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)  
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 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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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, 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

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—\$7,373,298,337 as of July 2, 2010.

Class B Common Stock, one dollar par value—\$4,623,676 as of July 2, 2010. 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 2, 2010.

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—166,595,380 shares, as of February 9, 2011.

Class B Common Stock, one dollar par value— 60,706,419 shares, as of February 9, 2011.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's Proxy Statement for the Company's 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

**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 producer of quality chocolate in North America and a global leader in chocolate and sugar confectionery. Our principal product groups include chocolate and sugar confectionery products; gum and mint refreshment products; and pantry items, such as baking ingredients, toppings and beverages.

**Reportable Segment**

We operate as a single reportable segment in manufacturing, marketing, selling and distributing various package types of chocolate and sugar confectionery products, pantry items and gum and mint refreshment products under more than 80 brand names. Our five operating segments comprise geographic regions including the United States, Canada, Mexico, Brazil and other international locations, such as India, Korea, Japan, the Middle East, China and the Philippines. We market our products in approximately 60 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; 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**

During 2010, our selling and marketing organization was comprised of Hershey North America, Hershey International and the Global Marketing Group. This organization was 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 was responsible for our chocolate and sugar confectionery market position in the U.S. and Canada. This included developing and growing our business in our chocolate, sugar confectionery, refreshment, pantry, and food service product lines. A component of Hershey North America, The Hershey Experience, managed our retail operations within the United States.

***Hershey International***

Hershey International was responsible for international subsidiaries that manufacture, import, market, sell or distribute chocolate, sugar confectionery and beverage products in Latin America and Asia, particularly Mexico, Brazil, China and India. Hershey International was also responsible for manufacturing confectionery products for the markets in Asia, particularly in China, under an agreement with Lotte Confectionery Co., Ltd. A component of Hershey International managed our Hershey’s Shanghai retail attraction in Shanghai, China.

## **Global Marketing Group**

Our Global Marketing Group was responsible for building global brands, developing transformational growth platforms, brand positioning and portfolio strategy. This organization also developed market-specific insights, strategies and platform innovation for Hershey North America and Hershey International.

## **New Organization Design**

Beginning in January 2011, we are operating under a matrix reporting structure, with the Chief Executive Officer responsible for our strategic direction, and the Chief Operating Officer responsible for our day-to-day operations and global commercial activities. This matrix reporting structure is designed to disperse operating decisions, and create the basis for a scalable structure as we develop globally.

Our business is organized around three key categories: geographic regions, strategic business units and our global marketing organization. Our new organization is designed to enable us to build processes for repeatable success in our global markets.

Our geographic regions will have accountability for delivering our annual financial plans. The key regions are:

- The United States;
- The Americas, including Canada, Mexico, Brazil and global exports; and
- Asia, including the Middle East and Africa.

Our two strategic business units comprise chocolate and sugar confections, which includes our refreshment brands. These strategic business units are responsible for building and leveraging Hershey's brands, creating marketplace innovation and disseminating best demonstrated practices around the world, while achieving annual and strategic objectives.

Our global marketing organization is responsible for developing leading-edge insights and intellectual capital; setting the framework, standards and processes for global marketing; driving marketing continuous improvement; building innovation within categories; developing new business beyond core confections; and developing marketing talent. This organization is also responsible for our retail operations and licensing.

Key strategic imperatives for our organization include:

- Building a sustainable and competitively advantaged business model, continuing our focus on managing our cost profile in order to provide the margin structure and resources to continue to invest in our business;
- Driving unrelenting focus on predictable and profitable growth in the United States by continuing to invest in our brands and capabilities;
- Delivering consumer-driven insights and sustainable innovation to improve our position in key growth areas—strengthening our position globally in sugar confections, building a competitive position in the premium and value confectionery segments and supporting health and wellness product offerings;
- Driving scale growth in the international marketplace, especially in Canada, Mexico, China and other markets;
- More aggressively pursuing merger and acquisition opportunities in international and U.S. confectionery markets; and
- Delivering a superior employee value proposition for our greatest asset through training, development and talent retention and acquisition in order to succeed and compete in the global marketplace.

## Products

### United States

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

#### Under the HERSHEY'S brand franchise:

HERSHEY'S milk chocolate bar  
HERSHEY'S milk chocolate bar with almonds  
HERSHEY'S Extra Dark chocolates  
HERSHEY'S MINIATURES chocolate candy  
HERSHEY'S NUGGETS chocolates  
HERSHEY'S DROPS chocolates

HERSHEY'S BLISS chocolates  
HERSHEY'S COOKIES 'N' CRÈME candy bar  
HERSHEY'S COOKIES 'N' CRÈME DROPS candy  
HERSHEY'S POT OF GOLD boxed chocolates  
HERSHEY'S SUGAR FREE chocolate candy  
HERSHEY'S HUGS candies

#### Under the REESE'S brand franchise:

REESE'S peanut butter cups  
REESE'S peanut butter cups minis  
REESE'S PIECES candy  
REESE'S BIG CUP peanut butter cups  
REESE'S NUTRAGEOUS candy bar  
REESE'S Select Clusters candy

REESE'S sugar free peanut butter cups  
REESE'S crispy crunchy bar  
REESE'S WHIPPS nougat bar  
REESESTICKS wafer bars  
REESE'S FAST BREAK candy bar

#### Under the KISSES brand franchise:

HERSHEY'S KISSES brand milk chocolates  
HERSHEY'S KISSES brand milk chocolates with almonds  
HERSHEY'S KISSES brand chocolate meltaway milk chocolates

HERSHEY'S KISSES brand milk chocolates  
with cherry cordial crème  
HERSHEY'S KISSES brand milk chocolates  
filled with caramel  
HERSHEY'S KISSES brand SPECIAL DARK chocolates

Our other chocolate and sugar confectionery products sold in the United States include the following:

5<sup>th</sup> AVENUE candy bar  
ALMOND JOY candy bar  
ALMOND JOY PIECES candy  
CADBURY chocolates  
CAMELLO candy bar  
GOOD & PLENTY candy  
HEATH toffee bar  
JOLLY RANCHER candy  
JOLLY RANCHER sugar free hard candy  
KIT KAT wafer bar

MILK DUDS candy  
MOUNDS candy bar  
MR. GOODBAR candy bar  
PAYDAY peanut caramel bar  
ROLO caramels in milk chocolate  
SKOR toffee bar  
SPECIAL DARK chocolate bar  
SPECIAL DARK PIECES candy  
SYMPHONY milk chocolate bar  
SYMPHONY milk chocolate bar with almonds  
and toffee

TAKE5 candy bar  
THINGAMAJIG candy bar  
TWIZZLERS candy  
TWIZZLERS sugar free candy  
WHATCHAMACALLIT candy bar  
WHOPPERS malted milk balls  
YORK peppermint pattie  
YORK sugar free peppermint pattie  
YORK PIECES candy  
ZAGNUT candy bar  
ZERO candy bar

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

*Premium products*

Artisan Confections Company, a wholly-owned subsidiary of The Hershey Company, markets *SCHARFFEN BERGER* high-cacao dark chocolate products, and *DAGOBA* natural and organic chocolate products. Our *SCHARFFEN BERGER* products include chocolate bars, tasting squares, home baking products and professional chocolate and cocoa items. *DAGOBA* products include chocolate bars, drinking chocolate and baking products.

*Snack products*

Our snack products include *HERSHEY'S* 100 calorie bars in several varieties, *REESE'S SNACK BARZ* and *MAUNA LOA* macadamia snack nuts.

*Refreshment products*

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

*Pantry items*

Pantry items include *HERSHEY'S*, *REESE'S*, *HEATH*, and *SCHARFFEN BERGER* baking products. Our toppings and sundae syrups include *REESE'S*, *HEATH* and *HERSHEY'S*. We sell hot cocoa mix under the *HERSHEY'S BLISS* brand name.

**Canada**

Principal products we 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* brand milk chocolates; *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, sugar confectionery and beverage products in Mexico, under the *HERSHEY'S*, *KISSES*, *JOLLY RANCHER* and *PELÓN PELO RICO* brands.

**Brazil**

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

**India**

We manufacture, market, sell and distribute sugar confectionery, beverage and cooking oil 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 2010, 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 22.1% 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 and the consistently superior quality of our products. We 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 use our promotional programs to stimulate sales of certain products 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 strategically located distribution centers. 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 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 August 2008, we announced an increase in wholesale prices across the United States, Puerto Rico and export chocolate and sugar confectionery lines. This price increase was effective immediately, and represented a weighted-average 11% increase on our instant consumable, multi-pack and packaged candy lines. These changes approximated a 10% increase over the entire domestic product line.

In January 2008, we announced an increase in the wholesale prices of our domestic confectionery line, effective immediately. This price increase applied to our standard bar, king-size bar, 6-pack and vending lines and represented a weighted-average increase of approximately 13% on these items. These price changes approximated a 3% increase over our entire domestic product line.

Usually there is a time lag between the effective date of list price increases and the impact of the price increases on net sales. The impact of price increases is often delayed because we honor previous commitments to planned consumer and customer promotions and merchandising events subsequent to the effective date of the price increases. In addition, promotional allowances may be increased subsequent to the effective date, delaying or partially offsetting the impact of price increases on net sales.

### **Raw Materials**

Cocoa products are the most significant raw materials we use to produce our chocolate products. Cocoa products, including cocoa liquor, cocoa butter and cocoa powder processed from cocoa beans, are used to meet manufacturing requirements. Cocoa products are purchased directly from third party suppliers. These third party suppliers source cocoa beans which are grown principally in Far Eastern, West African and South American equatorial regions. West Africa accounts for approximately 65% of the world's supply of cocoa beans.

Historically, there have been instances of adverse weather, crop disease, civil disruptions, 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.

During 2010, the average cocoa futures contract prices increased compared with 2009, and traded in a range between \$1.26 and \$1.53 per pound, based on the IntercontinentalExchange futures contract. Cocoa futures prices during 2010 traded at prices that were near 30-year highs. The sustained high cocoa futures prices reflected concern over long-term growth capabilities in the Ivory Coast and continued interest in commodities as an investment by various hedge funds. 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 averages of the quotations at noon of the three active futures trading contracts closest to maturity on the IntercontinentalExchange.

	Cocoa Futures Contract Prices (dollars per pound)				
	2010	2009	2008	2007	2006
Annual Average	<b>\$1.36</b>	\$1.28	\$1.19	\$.86	\$.70
High	<b>1.53</b>	1.52	1.50	.95	.75
Low	<b>1.26</b>	1.10	.86	.75	.67

Source: International Cocoa Organization Quarterly Bulletin of Cocoa Statistics

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

The Food, Conservation and Energy Act of 2008, which is a five-year farm bill, impacts the prices of sugar, corn, peanuts and dairy products because it sets price support levels for these commodities.

During 2010, prices for dairy products started the year slightly above \$.14 per pound and increased to approximately \$.18 per pound on a class II fluid milk basis. Prices are stronger in the face of strong demand for dairy products and tight supply of butterfat. Our costs for certain dairy products may not necessarily reflect market price fluctuations because of our forward purchasing practices.

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 2010, sugar supplies in the U.S. were negatively impacted by government import restrictions, strong demand and high world market prices. As a result, refined sugar prices increased significantly, trading in a range from \$.48 to \$.66 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 \$.46 per pound and increased late in the year to \$.56 per pound due to the subpar yield for the current year's crop. Almond prices began the year at \$1.95 per pound and increased to \$2.40 per pound during the year driven by strong demand. Our costs for peanuts and almonds will not necessarily reflect market price fluctuations because of our forward purchasing practices.

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

products, sugar, corn sweeteners, natural gas, fuel oil and certain dairy products. However, the dairy futures markets are not as developed as many of the other commodities futures markets and, therefore, generally it is difficult to hedge our costs for dairy products by entering into futures contracts and other derivative instruments to extend coverage for long 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.

### Product Sourcing

We manufacture or contract to our specifications for the manufacture of the products we sell. In addition, we contract with third party suppliers to source certain ingredients. We enter into manufacturing contracts with third parties to improve our strategic competitive position and determine cost effective production and sourcing of our products.

### Competition

Many of our brands enjoy wide consumer acceptance and are among the leading brands sold in the marketplace in North America. We sell our brands in highly competitive markets 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.

### 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 and distribute 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:

<b>Company</b>	<b>Brand</b>	<b>Location</b>	<b>Requirements</b>
Cadbury Ireland Limited	<i>YORK</i> <i>PETER PAUL ALMOND JOY</i> <i>PETER PAUL MOUNDS</i>	Worldwide	None
Cadbury UK Limited	<i>CADBURY</i> <i>CARAMELLO</i>	United States	Minimum sales requirement exceeded in 2010
Société des Produits Nestlé SA	<i>KIT KAT</i> <i>ROLO</i>	United States	Minimum unit volume sales exceeded in 2010
Huhtamäki Oy affiliate	<i>GOOD &amp; PLENTY</i> <i>HEATH</i> <i>JOLLY RANCHER</i> <i>MILK DUDS</i> <i>PAYDAY</i> <i>WHOPPERS</i>	Worldwide	None

We also grant trademark licenses to third parties to produce and sell pantry items, flavored milks 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 the Notes to the Consolidated Financial Statements, *Note 1, Summary of Significant Accounting Policies*.

## **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.

Our Product Excellence Program provides us with an effective product quality and safety program. This program assures that all products we purchase, manufacture and distribute are safe, are of high quality and comply with all applicable laws and regulations.

Through our Product Excellence Program, we evaluate the supply chain including ingredients, packaging, processes, products, distribution and the environment to determine where product quality and safety controls are necessary. We identify risks and establish controls to assure product quality and safety. Various government agencies, third party firms and our quality assurance staff conduct audits of all facilities that manufacture our products to assure effectiveness and compliance with our program and all applicable laws and regulations.

## **Environmental Considerations**

We made routine operating and capital expenditures during 2010 to comply with environmental laws and regulations. These expenditures were not material with respect to our results of operations, capital expenditures, earnings or competitive position.

## **Employees**

As of December 31, 2010, we employed approximately 11,300 full-time and 2,200 part-time employees worldwide. Collective bargaining agreements covered approximately 4,800 employees. During 2011, agreements will be negotiated for certain employees at five facilities, primarily outside of the United States, comprising approximately 52% of total employees under collective bargaining agreements. 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 15.2% for 2010, 14.3% for 2009 and 14.4% for 2008. The percentage of total consolidated assets outside of the United States as of December 31, 2010 was 14.8% and as of December 31, 2009 was 17.5%. Operating profit margins vary among individual products and product groups.

## Corporate Social Responsibility

Our founder, Milton S. Hershey, established an enduring model of responsible citizenship while creating a successful business. Making a difference in our communities, driving sustainable business practices and operating with the highest integrity are vital parts of our heritage and shapes our future. Milton Hershey School, established by Milton and Catherine Hershey, lies at the center of our unique heritage. Mr. Hershey donated and bequeathed almost his entire fortune to the Milton Hershey School, which remains our primary beneficiary and provides a world-class education and nurturing home to nearly 2,000 children in need annually. We continue Milton Hershey's legacy of commitment to consumers, community and children by providing high quality Hershey products while conducting our business in a socially responsible and environmentally sustainable manner.

In 2010, we issued our first corporate social responsibility ("CSR") report outlining our key programs and our 2009 results in economic, environmental and social performance indicators. The report is based on the Global Reporting Initiative standard. In the report, we also identified priority areas and set targets for future performance in our four CSR pillars: environment, community, workplace and marketplace.

Our environmental stewardship programs continue to reduce our impact on the environment. These programs focus on decreasing waste generation at our facilities, improving our packaging sustainability, and reducing greenhouse gas emissions by lowering energy consumption and improving the efficiency of the transportation network. For Earth Day in 2010, we held an employee engagement event to promote resource conservation for our over 13,000 global employees.

We participated in the Carbon Disclosure Project for the second year. The Carbon Disclosure Project, primarily intended as an investor information tool, is an independent not-for-profit organization holding the largest database of primary corporate climate change information in the world. Through this submission, we assessed the impact of climate change on our business as well as our plans to address the impact of climate change on Hershey's operations around the world.

We continue our leadership role in improving the lives of cocoa farming families through our active engagement and financial support for the World Cocoa Foundation, the International Cocoa Initiative, Farmer Field Schools, the Sustainable Tree Crops program and other key initiatives.

We continue our top tier safety performance in our workplaces, where employee safety and wellness are our focus. Our employees, at all our locations worldwide, engage in our CSR programs and initiatives through communication, education and CSR events.

Our employees and retirees share their time and resources generously in their communities. Both directly and through the United Way, we contribute to hundreds of agencies that deliver much needed services and resources. Our focus on "Kids and Kids at Risk" is supported through the Children's Miracle Network; Project Fellowship where employees partner with student homes at the Milton Hershey School; an orphanage for special needs children in the Philippines; and a children's burn center in Guadalajara, Mexico, to name a few of the organizations we support.

In our marketplace we focus on promoting fair and ethical business dealings. We continue to invest in our quality management system to ensure product quality and food safety remain our top priorities. We implemented significant initiatives encompassing our entire value chain in 2010. We revised and issued our Supplier Code of Conduct which outlines our supplier expectations with regard to legal compliance and business integrity; social and working conditions; environment and food safety. In response to the growing concern with nutrition and obesity, we, along with 15 other food manufacturers and retailers, founded The Healthy Weight Commitment Foundation, a national, multi-year effort designed to help reduce obesity—especially childhood obesity—by 2015.

## 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 “Investors” section of our website, [www.thehersheycompany.com](http://www.thehersheycompany.com) shortly after we file or furnish the information to the SEC.

You may obtain a copy of any of these reports directly from the SEC’s Public Reference Room. Contact the SEC by calling them at 1-800-SEC-0330 or by submitting a written request to U.S. Securities and Exchange Commission, Office of Investor Education and Advocacy, 100 F Street N.E., Washington, D.C. 20549-0213. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). You can obtain additional information on how to request public documents from the SEC on their website. The phone number for information about the operation of the SEC Office of Investor Education and Advocacy is 202-551-8090.

We have 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 Investors section of our website, [www.thehersheycompany.com](http://www.thehersheycompany.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.

We also post our Corporate Governance Guidelines and charters for each of the Board’s standing committees in the Investors section of our website, [www.thehersheycompany.com](http://www.thehersheycompany.com). The Board of Directors adopted these Guidelines and charters.

We will provide to 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.

### ***Issues or concerns related to the quality and safety of our products, ingredients or packaging could cause a product recall and/or result in harm to the Company’s reputation, 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.

***Increases in raw material and energy costs along with the availability of adequate supplies of raw materials could affect future financial results.***

We use many different commodities for our business, including 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 numerous factors, including:

- 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;
- Supplier compliance with commitments;
- Political unrest in producing countries; and
- Changes in governmental agricultural programs and energy policies.

Although we use forward contracts and commodity futures and options 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.

***Price increases may not be sufficient to offset cost increases and maintain profitability or may result in sales volume declines associated with pricing elasticity.***

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 sizes 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.

***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. Our continued success is impacted by many factors, including the following:

- Effective retail execution;
- Appropriate advertising campaigns and marketing programs;
- Our ability to secure adequate shelf space at retail locations;
- Product innovation, including maintaining a strong pipeline of new products;

- Changes in product category consumption;
- Our response to consumer demographics and trends; and
- Consumer health concerns, including obesity and the consumption of certain ingredients.

Our largest customer, McLane Company, Inc., accounted for approximately 22.1% of our total net sales in 2010 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. 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.

***Disruption to our supply chain could impair our ability to produce or deliver our finished products, resulting in a negative impact on our operating results.***

Disruption to our manufacturing operations or our supply chain could result from, but are not limited to, the following:

- Natural disaster;
- Pandemic outbreak of disease;
- Weather;
- Fire or explosion;
- Terrorism or other acts of violence;
- Labor strikes;
- Unavailability of raw or packaging materials; and
- Operational and/or financial instability of key suppliers, and other vendors or service providers.

We take adequate precautions to mitigate the impact of possible disruptions, and have plans in place to manage such events if they were to occur. If we are unable, or if it is not financially feasible, to effectively mitigate the likelihood or potential impact of such disruptive events, our results of operations and financial condition could be negatively impacted.

***Our financial results may be adversely impacted by the failure to successfully execute acquisitions, divestitures and joint ventures.***

From time to time, we may evaluate potential acquisitions, divestitures or joint ventures that align with our strategic objectives. The success of such activity depends, in part, upon our ability to identify suitable buyers,

sellers or business partners; perform effective assessments prior to contract execution; negotiate contract terms; and, if applicable, obtain government approval. These activities may present certain financial, managerial and operational risks, including diversion of management's attention from existing core businesses; difficulties integrating or separating businesses from existing operations; and challenges presented by acquisitions or joint ventures which may not achieve sales levels and profitability that justify the investments made. If the acquisitions, divestitures or joint ventures are not successfully implemented or completed, there could be a negative impact on our results of operations, financial condition and cash flows.

***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. 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, 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.

***Political, economic, and/or financial market conditions could negatively impact our financial results.***

Our operations are impacted by consumer spending levels and impulse purchases which are affected by general macroeconomic conditions, consumer confidence, employment levels, availability of consumer credit and interest rates on that credit, consumer debt levels, energy costs and other factors. Volatility in food and energy costs, sustained global recessions, rising unemployment and declines in personal spending could adversely impact our revenues, profitability and financial condition.

Changes in financial market conditions may make it difficult to access credit markets on commercially acceptable terms which may reduce liquidity or increase borrowing costs for our Company, our customers and our suppliers. A significant reduction in liquidity could increase counterparty risk associated with certain suppliers and service providers, resulting in disruption to our supply chain and/or higher costs, and could impact our customers, resulting in a reduction in our revenue, or a possible increase in bad debt expense.

***International operations could fluctuate unexpectedly and adversely impact our business.***

In 2010, we derived approximately 15.2% of our net sales from customers located outside of 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 Mexico, 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 compliance and enforcement of 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, terrorism, mass violence or armed conflict;
- 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.

***Disruptions, failures or security breaches of our information technology infrastructure could have a negative impact on our operations.***

Information technology is an important part of our business operations. We use information technology to manage business processes, collect and interpret business data and communicate internally and externally with employees, suppliers, customers and others. We have backup systems and business continuity plans in place; however, a disruption or failure could have a negative impact on our operations or business reputation. Failure of our systems to function as intended could cause transaction errors, loss of customers and sales, and could have negative consequences to our Company, our employees, and those with whom we do business.

***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 industry in certain jurisdictions. We are cooperating fully with all relevant authorities. We are also party to a number of civil antitrust suits in the United States and Canada. These allegations could have a negative impact on our Company's reputation. We also may be required to incur defense costs in litigation and/or be subject to fines or damages. In addition, our costs could increase if we became subject to new or additional government-mandated regulatory controls. These possible actions could negatively impact our future operating results.

***Pension costs or funding requirements could increase at a higher than anticipated rate.***

We sponsor a number of defined benefit pension plans. 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 for 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. A significant increase in pension expense, in pension settlement losses or in future funding requirements could have a negative impact on our results of operations, financial condition and cash flows. For more information, refer to page 43.

***Implementation of our Project Next Century program may not occur within the anticipated timeframe and/or may exceed our cost estimates. In addition, annual savings from this initiative may be less than we expect.***

Completion of the Project Next Century program is subject to multiple operating and executional risks, including coordination of manufacturing changes and production line startups, among others. If we are not able to complete the program initiatives within the anticipated timeframe and within our cost estimates and/or if expected cost reductions from efficiency improvements are not realized, our results of operations and financial condition could be negatively impacted. We estimate that the Project Next Century program will incur pre-tax charges and non-recurring project implementation costs in the \$140 million to \$170 million range over the three-year implementation period. When fully implemented, Project Next Century is expected to provide annual cost savings from efficiency improvements of \$60 million to \$80 million.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

Our principal properties include the following:

Country	Location	Type	Status (Own/Lease)
United States	Hershey, Pennsylvania (3 principal plants)*	Manufacturing—confectionery products and pantry items	Own
	Lancaster, Pennsylvania	Manufacturing—confectionery products	Own
	Robinson, Illinois	Manufacturing—confectionery products, snack products and pantry items	Own
	Stuarts Draft, Virginia	Manufacturing—confectionery products and pantry items	Own
	Edwardsville, Illinois	Distribution	Own
	Palmyra, Pennsylvania	Distribution	Own
	Ogden, Utah	Distribution	Own
Canada	Mississauga, Ontario	Distribution	Lease
Mexico	Monterrey, Mexico	Manufacturing—confectionery products	Own

\* In June 2010, we announced Project Next Century. As part of Project Next Century, production will transition from our manufacturing facility at 19 East Chocolate Avenue in Hershey, Pennsylvania, to a planned expansion of our West Hershey facility. For more information, refer to Item 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Business Realignment and Impairment Charges.*

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



**Item 3.      *LEGAL PROCEEDINGS***

In connection with its pricing practices, the Company is the subject of an antitrust investigation by the Canadian Competition Bureau. In addition, the U.S. Department of Justice notified the Company that it opened an inquiry but has not requested any information or documents. The European Commission had requested information, but subsequently informed the Company that it had closed its file. We also are party to approximately 90 related civil antitrust suits in the United States and 14 in Canada. Certain of these claims contain class action allegations, instituted on behalf of direct purchasers of our products as well as indirect purchasers that purchase our products for use or for resale. These suits allege conspiracies in restraint of trade in connection with the pricing practices of the Company. Several other chocolate and 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. 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.

**PART II**

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

We paid \$283.4 million in cash dividends on our Common Stock and Class B Common Stock ("Class B Stock") in 2010 and \$263.4 million in 2009. The annual dividend rate on our Common Stock in 2010 was \$1.28 per share.

On January 31, 2011, our Board of Directors declared a quarterly dividend of \$0.345 per share of Common Stock payable on March 15, 2011, to stockholders of record as of February 25, 2011. It is the Company's 325th consecutive Common Stock dividend. A quarterly dividend of \$0.3125 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 425.1 million shares of our Common Stock were traded during 2010. The Class B Stock is not publicly traded.

The closing price of our Common Stock on December 31, 2010 was \$47.15. There were 39,132 stockholders of record of our Common Stock and our Class B Stock as of December 31, 2010.

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 2 years:

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
<b>2010</b>				
1st Quarter	\$ .3200	\$ .2900	\$43.58	\$35.76
2nd Quarter	.3200	.2900	52.10	42.79
3rd Quarter	.3200	.2900	51.67	45.31
4th Quarter	.3200	.2900	51.75	45.66
Total	<u>\$1.2800</u>	<u>\$1.1600</u>		
	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
<b>2009</b>				
1st Quarter	\$ .2975	\$ .2678	\$38.23	\$30.27
2nd Quarter	.2975	.2678	37.83	33.70
3rd Quarter	.2975	.2678	42.25	35.78
4th Quarter	.2975	.2678	41.62	35.05
Total	<u>\$1.1900</u>	<u>\$1.0712</u>		

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

**Unregistered Sales of Equity Securities and Use of Proceeds**

None.

## Issuer Purchases of Equity Securities

Purchases of equity securities during the fourth quarter of the fiscal year ended December 31, 2010:

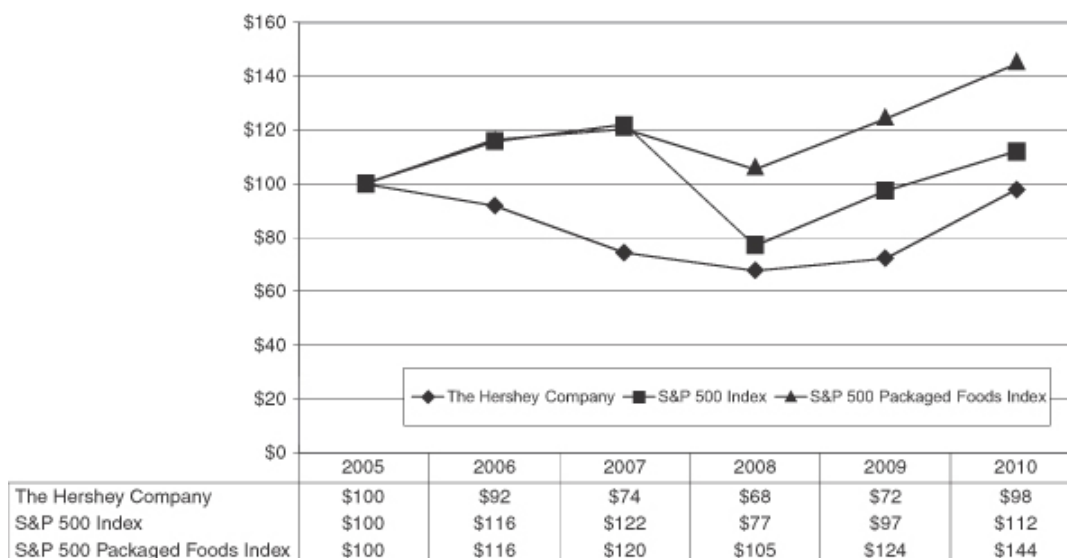
Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup> (in thousands of dollars)
October 4 through October 31, 2010	—	\$ —	—	\$ 100,017
November 1 through November 28, 2010	670,999	\$ 46.41	—	\$ 100,017
November 29 through December 31, 2010	96,774	\$ 46.69	—	\$ 100,017
<b>Total</b>	<u>767,773</u>	\$ 46.45	<u>—</u>	

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

## 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 500 PACKAGED FOODS INDEX**



\* Hypothetical \$100 invested on December 31, 2005 in Hershey Common Stock, S&P 500 Index and S&P 500 Packaged Foods Index, assuming reinvestment of dividends.

**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	2010	2009	2008	2007	2006	2005
<b>Summary of Operations</b>							
Net Sales	3.3%	\$ 5,671,009	5,298,668	5,132,768	4,946,716	4,944,230	4,819,827
Cost of Sales	1.9%	\$ 3,255,801	3,245,531	3,375,050	3,315,147	3,076,718	2,956,682
Selling, Marketing and Administrative	9.3%	\$ 1,426,477	1,208,672	1,073,019	895,874	860,378	912,986
Business Realignment and Impairment Charges, Net	(2.9)%	\$ 83,433	82,875	94,801	276,868	14,576	96,537
Interest Expense, Net	1.9%	\$ 96,434	90,459	97,876	118,585	116,056	87,985
Provision for Income Taxes	1.5%	\$ 299,065	235,137	180,617	126,088	317,441	277,090
Net Income	0.9%	\$ 509,799	435,994	311,405	214,154	559,061	488,547
<b>Net Income Per Share:</b>							
—Basic—Class B Stock	2.4%	\$ 2.08	1.77	1.27	.87	2.19	1.85
—Diluted—Class B Stock	2.4%	\$ 2.07	1.77	1.27	.87	2.17	1.84
—Basic—Common Stock	2.2%	\$ 2.29	1.97	1.41	.96	2.44	2.05
—Diluted—Common Stock	2.3%	\$ 2.21	1.90	1.36	.93	2.34	1.97
<b>Weighted-Average Shares Outstanding:</b>							
—Basic—Common Stock		167,032	167,136	166,709	168,050	174,722	183,747
—Basic—Class B Stock		60,708	60,709	60,777	60,813	60,817	60,821
—Diluted		230,313	228,995	228,697	231,449	239,071	248,292
Dividends Paid on Common Stock	4.6%	\$ 213,013	198,371	197,839	190,199	178,873	170,147
Per Share	6.6%	\$ 1.28	1.19	1.19	1.135	1.03	.93
Dividends Paid on Class B Stock	6.6%	\$ 70,421	65,032	65,110	62,064	56,256	51,088
Per Share	6.7%	\$ 1.16	1.0712	1.0712	1.0206	.925	.84
Net Income as a Percent of Net Sales, GAAP Basis		9.0%	8.2%	6.1%	4.3%	11.3%	10.1%
Non-GAAP Adjusted Income as a Percent of Net Sales <sup>(a)</sup>		10.4%	9.4%	8.4%	9.7%	11.5%	11.7%
Depreciation	(3.2)%	\$ 169,677	157,996	227,183	292,658	181,038	200,132
Advertising	25.6%	\$ 391,145	241,184	161,133	127,896	108,327	125,023
Payroll	(0.2)%	\$ 641,756	613,568	645,456	645,083	645,480	647,825
<b>Year-end Position and Statistics</b>							
Capital Additions	(0.2)%	\$ 179,538	126,324	262,643	189,698	183,496	181,069
Capitalized Software Additions	10.6%	\$ 21,949	19,146	20,336	14,194	15,016	13,236
Total Assets	0.0%	\$ 4,272,732	3,675,031	3,634,719	4,247,113	4,157,565	4,262,699
Short-term Debt and Current Portion of Long-term Debt	(19.0)%	\$ 285,480	39,313	501,504	856,392	843,998	819,115
Long-term Portion of Debt	10.3%	\$ 1,541,825	1,502,730	1,505,954	1,279,965	1,248,128	942,755
Stockholders' Equity	(1.6)%	\$ 937,601	760,339	349,944	623,520	683,423	1,016,380
Full-time Employees		11,300	12,100	12,800	12,400	12,800	13,750
<b>Stockholders' Data</b>							
Outstanding Shares of Common Stock and Class B Stock at Year-end		227,030	227,998	227,035	227,050	230,264	240,524
Market Price of Common Stock at Year-end	(3.1)%	\$ 47.15	35.79	34.74	39.40	49.80	55.25
Range During Year		\$52.10-35.76	42.25-30.27	44.32-32.10	56.75-38.21	57.65-48.20	67.37-52.49

(a) Non-GAAP Adjusted Income as a Percent of Net Sales is calculated by dividing adjusted non-GAAP Income by Net Sales. A reconciliation of Net Income presented in accordance with U.S. generally accepted accounting principles ("GAAP") to adjusted non-GAAP Income is provided on pages 20 and 21, along with the reasons why we believe that the use of adjusted non-GAAP financial measures provides useful information to investors.

**EXECUTIVE OVERVIEW**

Results for the year ended December 31, 2010 were strong, reflecting our continued focus on our major strategic initiatives to deliver sustainable long-term growth in the evolving marketplace. Net sales and earnings per share increased at rates exceeding our growth targets, even as the economic environment continued to be challenging. Our decision to invest in our business through cost savings initiatives, and our consumer-driven approach to core brand investments contributed to our strong financial performance and improved market share in 2010.

Net sales increased 7.0% compared with 2009 driven primarily by volume gains both in the United States and international markets, as we continue to execute in the marketplace. Advertising expense increased over 60% versus 2009, with a continued focus on brand building and go-to-market strategies for the U.S. and key international markets. Net income and earnings per share-diluted also increased as the result of our investment initiatives. We generated strong cash flow from operations and our financial position remains solid.

**Adjusted Non-GAAP Financial Measures**

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.

Adjusted non-GAAP financial measures exclude the impacts of charges or credits recorded during the last six years associated with our business realignment initiatives and impairment charges related to goodwill and certain trademarks.

For the years ended December 31,

	2010			2009		
	EBIT	Net Income	EPS	EBIT	Net Income	EPS
<b>In millions of dollars except per share amounts</b>						
Results in accordance with GAAP	\$ 905.3	\$509.8	\$2.21	\$761.6	\$436.0	\$1.90
Adjustments:						
Business realignment charges included in cost of sales	13.7	8.4	.04	10.1	6.3	.03
Business realignment charges included in selling, marketing and administrative ("SM&A")	1.5	.9	—	6.1	3.8	.02
Business realignment and impairment charges, net	83.4	68.6	.30	82.9	50.7	.22
Adjusted non-GAAP results	<u>\$1,003.9</u>	<u>\$587.7</u>	<u>\$2.55</u>	<u>\$860.7</u>	<u>\$496.8</u>	<u>\$2.17</u>

For the years ended December 31,

	2008			2007		
	EBIT	Net Income	EPS	EBIT	Net Income	EPS
<b>In millions of dollars except per share amounts</b>						
Results in accordance with GAAP	\$ 589.9	\$311.4	\$1.36	\$458.8	\$214.2	\$ .93
Adjustments:						
Business realignment charges included in cost of sales	77.8	53.4	.23	123.1	80.9	.35
Business realignment charges included in SM&A	8.1	4.9	.02	12.6	7.8	.03
Business realignment and impairment charges, net	94.8	60.8	.27	276.9	178.9	.77
Adjusted non-GAAP results	<u>\$ 770.6</u>	<u>\$430.5</u>	<u>\$1.88</u>	<u>\$871.4</u>	<u>\$481.8</u>	<u>\$2.08</u>

For the years ended December 31,

	2006			2005		
	EBIT	Net Income	EPS	EBIT	Net Income	EPS
<b>In millions of dollars except per share amounts</b>						
Results in accordance with GAAP	\$ 992.6	\$559.1	\$2.34	\$853.6	\$488.5	\$1.97
Adjustments:						
Business realignment (credits) charges included in cost of sales	(3.2)	(2.0)	(.01)	22.5	13.4	.05
Business realignment charges included in SM&A	.3	.2	—	—	—	—
Business realignment and impairment charges, net	14.5	9.3	.04	96.5	60.7	.25
Adjusted non-GAAP results	<u>\$1,004.2</u>	<u>\$566.6</u>	<u>\$2.37</u>	<u>\$972.6</u>	<u>\$562.6</u>	<u>\$2.27</u>

Key Annual Performance Measures

	Adjusted Non-GAAP Results		
	2010	2009	2008
Increase in Net Sales	7.0%	3.2%	3.8%
Increase (decrease) in adjusted EBIT	16.6%	11.7%	(11.6)%
Improvement (decline) in adjusted EBIT Margin in basis points (“bps”)	150bps	120bps	(260)bps
Increase (decrease) in adjusted EPS	17.5%	15.4%	(9.6)%

## SUMMARY OF OPERATING RESULTS

### Analysis of Selected Items from Our Income Statement

For the years ended December 31, In millions of dollars except per share amounts	2010	2009	2008	Percent Change Increase (Decrease)	
				2010-2009	2009-2008
Net Sales	\$5,671.0	\$5,298.7	\$5,132.8	7.0%	3.2%
Cost of Sales	3,255.8	3,245.5	3,375.1	0.3	(3.8)
Gross Profit	2,415.2	2,053.2	1,757.7	17.6	16.8
Gross Margin	42.6%	38.7%	34.2%		
SM&A Expense	1,426.5	1,208.7	1,073.0	18.0	12.6
SM&A Expense as a percent of sales	25.2%	22.8%	20.9%		
Business Realignment and Impairment Charges, Net	83.4	82.9	94.8	0.7	(12.6)
EBIT	905.3	761.6	589.9	18.9	29.1
EBIT Margin	16.0%	14.4%	11.5%		
Interest Expense, Net	96.4	90.5	97.9	6.6	(7.6)
Provision for Income Taxes	299.1	235.1	180.6	27.2	30.2
Effective Income Tax Rate	37.0%	35.0%	36.7%		
Net Income	\$ 509.8	\$ 436.0	\$ 311.4	16.9	40.0
Net Income Per Share—Diluted	\$ 2.21	\$ 1.90	\$ 1.36	16.3	39.7

### Net Sales

#### 2010 compared with 2009

Net sales increased 7.0% due to sales volume increases of approximately 4%, primarily for core brands in the U.S. and sales of new products. Favorable price realization increased net sales by over 2%. Our international businesses contributed to sales growth during the year as a result of sales volume gains or, in certain markets, favorable price realization, partially offset by sales volume declines. Overall, sales volume increased for our international business compared with 2009. The favorable impact of foreign currency exchange rates increased net sales by about 1%.

#### 2009 compared with 2008

The increase in net sales resulted from list price increases and reduced rates of promotional allowances that resulted in favorable price realization of approximately 10%. These increases were partially offset by sales volume declines of approximately 6% associated with pricing elasticity and the rationalization of certain products and businesses in the United States. Net sales growth was primarily contributed by core brands, particularly *Hershey's*, *Reese's*, *Twizzlers* and *Kit Kat*, which benefited from our consumer-driven strategy, including advertising and in-store selling, merchandising and programming. Sales increases in local currency for our international businesses, particularly in Mexico, Canada, and Brazil, were more than offset by the unfavorable impact of foreign currency exchange rates which reduced total net sales by approximately 1.0%. The acquisition of Van Houten Singapore increased 2009 net sales by \$12.0 million, or 0.2%.

### Key U.S. Marketplace Metrics

For the 52 weeks ended December 31,	2010	2009	2008
Consumer Takeaway Increase	5.3%	7.2%	3.3%
Market Share Increase (Decrease)	0.3	0.1	(0.2)

Consumer takeaway is provided for channels of distribution accounting for approximately 80% of our U.S. confectionery retail business. These channels of distribution include food, drug, mass merchandisers, including

Wal-Mart Stores, Inc., and convenience stores. The change in market share is provided for channels measured by syndicated data which include sales in the food, drug, convenience store and mass merchandiser classes of trade, excluding sales of Wal-Mart Stores, Inc.

## **Cost of Sales and Gross Margin**

### *2010 compared with 2009*

The cost of sales increase of 0.3% was associated with sales volume increases, resulting in higher cost of sales of about 4%. Increased supply chain costs and slightly higher input costs also contributed to the cost of sales increase. These increases were substantially offset by cost decreases resulting from supply chain productivity improvements, a favorable sales mix and lower product obsolescence costs, which reduced cost of sales by a total of approximately 4.5%. Business realignment and impairment charges of \$13.7 million were included in cost of sales in 2010 compared with \$10.1 million in the prior year.

The gross margin improvement of 3.9 percentage points resulted from favorable price realization of about 2 percentage points, supply chain productivity improvements of approximately 2 percentage points and lower product obsolescence costs of approximately 1 percentage point. These increases in gross margin were partially offset by the impact of higher supply chain and input costs which reduced gross margin by approximately 1 percentage point.

### *2009 compared with 2008*

The decrease in cost of sales was caused by volume declines of approximately 6% resulting from price elasticity. Higher input costs resulted in an increase to cost of sales of approximately 4% as higher raw material and pension costs more than offset productivity gains and lower product obsolescence costs. During 2009, a reduction in inventories related to working capital initiatives resulted in a liquidation of applicable last-in, first-out ("LIFO") inventory quantities carried at lower costs in prior years. This LIFO liquidation resulted in a \$12.7 million cost of sales decrease. Lower business realignment charges included in cost of sales in 2009 compared with 2008 also contributed to the cost of sales decrease. Business realignment charges of \$10.1 million were included in cost of sales in 2009 compared with \$77.8 million in the prior year which had the effect of reducing cost of sales by approximately 2%.

Gross margin increased 4.5 percentage points. Favorable price realization and supply chain productivity improved gross margin by approximately 7 percentage points, while higher input costs and pension expense reduced gross margin by approximately 3 percentage points. Lower business realignment costs in 2009 increased gross margin by approximately 1 percentage point.

## **Selling, Marketing and Administrative**

### *2010 compared with 2009*

Selling, marketing and administrative expenses increased \$217.8 million or 18.0% in 2010. The increase was primarily a result of higher advertising and other marketing expenses which increased a total of \$171.1 million, or 41.0% versus 2009. Advertising expense increased 62.2% compared with 2009. An increase in other selling, marketing and administrative expenses was associated with higher selling expenses, increased legal costs and higher administrative expenses for our international businesses, including the impact of unfavorable foreign currency exchange rates. These increases were offset somewhat by lower costs related to the consideration of potential acquisitions and divestitures in 2010. Business realignment charges of \$1.5 million were included in selling, marketing and administrative expenses in 2010 compared with \$6.1 million in 2009.

### *2009 compared with 2008*

Selling, marketing and administrative expenses increased primarily due to higher advertising expense, and increases in administrative and selling costs, principally associated with higher pension and incentive



compensation expenses. An increase in advertising expense of approximately 50% was slightly offset by lower consumer promotions. Costs associated with the evaluation of potential acquisitions and divestitures increased selling, marketing and administrative expenses by approximately \$11.0 million in 2009 compared with 2008. Business realignment and impairment charges of \$6.1 million were included in selling, marketing and administrative expenses in 2009 compared with \$8.1 million in 2008.

### **Business Realignment and Impairment Charges**

In June 2010, we announced Project Next Century (the “Next Century program”) as part of our ongoing efforts to create an advantaged supply chain and competitive cost structure. As part of the program, production will transition from the Company’s century-old facility at 19 East Chocolate Avenue in Hershey, Pennsylvania, to a planned expansion of the West Hershey facility, which was built in 1992. Production from the 19 East Chocolate Avenue plant, as well as a portion of the workforce, will be relocated to the West Hershey facility. This change is expected to result in the reduction of approximately 500 to 600 jobs at the two facilities as investments in technology and automation result in enhanced efficiency.

We estimate that the Next Century program will incur pre-tax charges and non-recurring project implementation costs of \$140 million to \$170 million over three years. This estimate includes \$120 million to \$150 million in pre-tax business realignment and impairment charges and approximately \$20 million in project implementation and start-up costs.

During the second quarter of 2010 we completed an impairment evaluation of goodwill and other intangible assets associated with Godrej Hershey Ltd. Based on this evaluation, we recorded a non-cash goodwill impairment charge of \$44.7 million, including a reduction to reflect the share of the charge associated with the noncontrolling interests.

In February 2007, we announced a comprehensive, three-year supply chain transformation program (the “global supply chain transformation program” or “GSCT”). In December 2007, we initiated a business realignment program associated with our business in Brazil. In December 2008, we approved a modest expansion in the scope of the global supply chain transformation program to include the closure of two subscale manufacturing facilities of Artisan Confections Company, a wholly-owned subsidiary. We refer to these programs as “the 2007 business realignment initiatives.”

Total pre-tax charges and non-recurring project implementation costs were \$629.1 million for the GSCT. The GSCT was complete as of December 31, 2009. Total costs of \$99.1 million were recorded during 2009, costs of \$130.0 million were recorded in 2008 and costs of \$400.0 million were recorded in 2007 for this program. In addition, the manufacturing facilities in Naugatuck, Connecticut and Smiths Falls, Ontario have been closed and are being held for sale. The carrying value of these manufacturing facilities was \$10.4 million as of December 31, 2010. Actual proceeds from the sale of these facilities could differ from expected proceeds which could cause additional charges or credits in 2011 or subsequent years.

In an effort to improve the performance of our business in Brazil, in January 2008 Hershey do Brasil entered into a cooperative agreement with Pandurata Alimentos LTDA (now Pandurata Netherlands B.V.) (“Bauducco”), a leading manufacturer of baked goods in Brazil whose primary brand is Bauducco. Business realignment and impairment charges of \$4.9 million were recorded in 2008.

Charges (credits) associated with business realignment initiatives and impairment recorded during 2010, 2009 and 2008 were as follows:

<u>For the years ended December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Cost of sales</b>			
Next Century program	<b>\$13,644</b>	\$ —	\$ —
Global supply chain transformation program	—	10,136	77,767
Total cost of sales	<b>13,644</b>	10,136	77,767
<b>Selling, marketing and administrative</b>			
Next Century program	<b>1,493</b>	—	—
Global supply chain transformation program	—	6,120	8,102
Total selling, marketing and administrative	<b>1,493</b>	6,120	8,102
<b>Business realignment and impairment charges, net</b>			
Next Century program:			
Fixed asset impairment and plant closure expenses	<b>5,516</b>	—	—
Employee separation costs	<b>33,225</b>	—	—
2007 business realignment initiatives:			
Global supply chain transformation program:			
Net gain on sale of fixed assets	—	(3,418)	(4,882)
Plant closure expense	—	22,157	23,415
Employee separation costs	—	2,474	11,469
Pension settlement loss	—	60,431	12,501
Contract termination costs	—	1,231	1,637
Brazilian business realignment:			
Employee separation costs	—	—	1,581
Fixed asset impairment charges	—	—	754
Contract termination and other exit costs	—	—	2,587
2008 impairment of trademarks	—	—	45,739
Godrej Hershey Ltd. goodwill impairment	<b>44,692</b>	—	—
Total business realignment and impairment charges, net	<b>83,433</b>	82,875	94,801
<b>Total net charges associated with business realignment initiatives and impairment</b>	<b>98,570</b>	<b>99,131</b>	<b>180,670</b>

#### *Next Century Program*

The charge of \$13.6 million recorded in cost of sales during 2010 related primarily to accelerated depreciation of fixed assets over a reduced estimated remaining useful life associated with the Next Century program. A charge of \$1.5 million was recorded in selling, marketing and administrative expenses during 2010 for project administration. Fixed asset impairment charges of \$5.5 million were recorded during 2010. In determining the costs related to fixed asset impairments, fair value was estimated based on the expected sales proceeds. Employee separation costs of \$33.2 million during 2010 were related to expected voluntary and involuntary terminations at the two manufacturing facilities.

#### *Godrej Hershey Ltd. Goodwill Impairment*

As a result of recent operating performance that was below expectations, we completed an impairment evaluation of goodwill and other intangible assets of Godrej Hershey Ltd. during the second quarter of 2010. While Godrej Hershey Ltd. has achieved growth, it has been less than initial expectations due to slower realization of development plans and changes in input costs, as well as the macroeconomic environment which delayed distribution expansion and the implementation of new price points. As a result of reduced expectations

for future cash flows from lower than expected profitability, we determined that the carrying amount of Godrej Hershey Ltd. exceeded its fair value. As a result, we recorded a non-cash goodwill impairment charge of \$44.7 million to reduce the carrying value of Godrej Hershey Ltd. to its fair value, including a reduction to reflect the share of the charge associated with the noncontrolling interests. There was no tax benefit associated with this charge. For more information on our accounting policies for goodwill and other intangible assets see pages 47 and 48.

#### *Global Supply Chain Transformation Program*

The charge of \$10.1 million recorded in cost of sales during 2009 related to start-up costs and the accelerated depreciation of fixed assets over the estimated remaining useful life. The \$6.1 million recorded in selling, marketing and administrative expenses was associated with project administration. The \$3.4 million net gain on sale of fixed assets resulted from higher proceeds received from the sale of equipment. The \$22.2 million of plant closure expenses for 2009 pertained to the preparation of plants for sale and equipment removal costs. The global supply chain transformation program had identified six manufacturing facilities which would be closed. As of December 31, 2009, manufacturing facilities located in Dartmouth, Nova Scotia; Oakdale, California; and Montreal, Quebec had been closed and sold. The facilities located in Naugatuck, Connecticut; Reading, Pennsylvania; and Smiths Falls, Ontario had been closed and were being held for sale. The global supply chain transformation program employee separation costs were primarily related to involuntary terminations at the manufacturing facilities of Artisan Confections Company which have been closed. The higher pension settlement loss in 2009 compared to 2008 resulted from an increase in actuarial losses associated with the significant decline in the fair value of pension assets in 2008, along with the increased level of lump sum withdrawals from a defined benefit pension plan related to employee departures.

The 2008 charge of \$77.8 million recorded in cost of sales related primarily to the accelerated depreciation of fixed assets over a reduced estimated remaining useful life and start-up costs. The \$8.1 million recorded in selling, marketing and administrative expenses was associated with project administration. The \$4.9 million of gains on sale of fixed assets resulted from the receipt of proceeds in excess of the carrying value primarily from the sale of a warehousing and distribution facility. The \$23.4 million of plant closure expenses for 2008 resulted from the preparation of plants for sale and production line removal costs. Employee separation costs were related to involuntary terminations at the North American manufacturing facilities which were being closed.

#### *Brazilian Business Realignment*

The 2008 Brazilian business realignment charges were related to involuntary terminations and costs associated with office consolidation related to the cooperative agreement with Bauducco.

#### *2008 Impairment of Trademarks*

As a result of our annual impairment tests of intangible assets with useful lives determined to be indefinite, we recorded total impairment charges of \$45.7 million in December 2008. We determined that the carrying amounts of certain trademarks, primarily the *Mauna Loa* brand, exceeded their estimated fair value due to reduced expectations for future sales and cash flows compared with the valuations at the acquisition dates. For more information, refer to pages 47 and 48.

#### *Liabilities Associated with Business Realignment Initiatives*

As of December 31, 2010, the liability balance relating to the Next Century program was \$32.9 million primarily for estimated employee separation costs which were recorded in 2010 and will be paid principally in 2012 and 2013 as production transitions to the expanded West Hershey facility. During 2010, we made payments against the liabilities recorded for the Next Century program of \$0.3 million related to project administration and employee separation costs. We made payments of \$7.8 million in 2010, \$28.5 million in 2009 and \$46.9 million in 2008 against the liabilities recorded for the global supply chain transformation program, principally related to employee separation and project administration costs.

## **Income Before Interest and Income Taxes and EBIT Margin**

### *2010 compared with 2009*

EBIT increased in 2010 compared with 2009 as a result of higher gross profit, partially offset by increased marketing and selling investments and increases in other administrative expenses. Net pre-tax business realignment and impairment charges of \$98.6 million were recorded in 2010 compared with \$99.1 million recorded in 2009.

EBIT margin increased from 14.4% in 2009 to 16.0% in 2010. The increase in EBIT margin was the result of the higher gross margin, partially offset by increased brand investment and higher selling, marketing and administrative expense as a percentage of sales. Business realignment and impairment charges reduced EBIT margin by 1.7% in 2010 and 1.8% in 2009.

### *2009 compared with 2008*

EBIT increased in 2009 compared with 2008 principally as a result of higher gross profit and reduced business realignment charges, partially offset by increased selling, marketing and administrative expenses. Net pre-tax business realignment charges of \$99.1 million were recorded in 2009 compared with \$180.7 million recorded in 2008, a decrease of \$81.6 million.

EBIT margin increased from 11.5% for 2008 to 14.4% for 2009. The increase in EBIT margin was the result of the higher gross margin, partially offset by higher selling, marketing and administrative expense as a percentage of sales. Net business realignment and impairment charges reduced EBIT margin by 1.8 percentage points in 2009 and by 3.5 percentage points in 2008, resulting in an improvement in EBIT margin of 1.7 percentage points from 2008 to 2009.

## **Interest Expense, Net**

### *2010 compared with 2009*

Net interest expense in 2010 was higher than in 2009 as a result of interest expense of \$5.9 million recorded for the tender offer and repurchase of \$57.5 million of 6.95% Notes in December 2010.

### *2009 compared with 2008*

Net interest expense was lower in 2009 than in 2008 primarily due to lower interest rates and lower average debt balances.

## **Income Taxes and Effective Tax Rate**

### *2010 compared with 2009*

Our effective income tax rate was 37.0% for 2010 compared with 35.0% for 2009. The effective income tax rate was increased by 1.8 percentage points as a result of the effective tax rate associated with business realignment and impairment charges recorded in 2010. The effective income tax rate related to business realignment and impairment charges recorded in 2009 reduced the rate by 0.5 percentage points.

### *2009 compared with 2008*

Our effective income tax rate was 35.0% for 2009 and was decreased by 0.5 percentage points as a result of the effective tax rate associated with business realignment charges recorded during the year. Our effective income tax rate in 2008 was 36.7% and was increased by 0.7 percentage points as a result of the effective tax rate associated with business realignment and impairment charges recorded during 2008. Our effective income tax rate was also lower in 2009 due to changes in the mix of income among various tax jurisdictions as compared with 2008.

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**Net Income and Net Income Per Share***2010 compared with 2009*

Earnings per share-diluted increased \$0.31, or 16.3% in 2010 compared with 2009. Net income in 2010 was reduced by \$77.9 million, or \$0.34 per share-diluted, and was reduced by \$60.8 million, or \$0.27 per share-diluted in 2009 as a result of business realignment and impairment charges. Excluding the impact of business realignment and impairment charges, earnings per share-diluted increased \$0.38 or 17.5% in 2010 as compared with 2009.

*2009 compared with 2008*

Net income in 2009 was reduced by \$60.8 million, or \$0.27 per share-diluted, and was reduced by \$119.1 million, or \$0.52 per share-diluted, in 2008 as a result of net business realignment and impairment charges. After considering the impact of business realignment and impairment charges in each period, earnings per share-diluted in 2009 increased \$0.29, or 15.4%, as compared with 2008.

## FINANCIAL CONDITION

Our financial condition remained strong during 2010 reflecting solid cash flow from operations.

### Acquisitions and Divestitures

In March 2009, we completed the acquisition of the Van Houten Singapore consumer business. The acquisition from Barry Callebaut, AG provides us with an exclusive license of the Van Houten brand name and related trademarks in Asia and the Middle East for the retail and duty free distribution channels. The purchase price for the acquisition of Van Houten Singapore and the licensing agreement was approximately \$15.2 million. Total liabilities assumed were \$3.6 million.

In January 2008, our Brazilian subsidiary, Hershey do Brasil, entered into a cooperative agreement with Bauducco. In the first quarter of 2008, we received approximately \$2.0 million in cash and recorded an other intangible asset of \$13.7 million associated with the cooperative agreement with Bauducco in exchange for our conveying to Bauducco a 49% interest in Hershey do Brasil. We maintain a 51% controlling interest in Hershey do Brasil.

We included results subsequent to the dates of acquisition in the consolidated financial statements. Had the results of the acquisitions been included in the consolidated financial statements for each of the periods presented, the effect would not have been material.

### Assets

A summary of our assets is as follows:

<u>December 31,</u> <u>In thousands of dollars</u>	<u>2010</u>	<u>2009</u>
Current assets	<b>\$ 2,005,217</b>	\$ 1,385,434
Property, plant and equipment, net	<b>1,437,702</b>	1,404,767
Goodwill and other intangibles	<b>647,214</b>	697,100
Deferred income taxes	<b>21,387</b>	4,353
Other assets	<b>161,212</b>	183,377
Total assets	<b><u>\$ 4,272,732</u></b>	<b><u>\$ 3,675,031</u></b>

- The change in current assets from 2009 to 2010 was primarily due to the following:
  - Higher cash and cash equivalents in 2010 due to continued strong cash flow, positive net working capital and the issuance of \$350 million of 4.125% Notes in December 2010;
  - A decrease in accounts receivable primarily resulting from the timing of sales and cash collections in December 2010 as compared with December 2009;
  - An increase in inventories primarily related to an increase in finished goods inventories associated with seasonal sales patterns, partially offset by lower raw material inventories due to the timing of deliveries to meet manufacturing requirements;
  - An increase in deferred income taxes principally related to the effect of hedging transactions; and
  - A decrease in prepaid expenses and other current assets primarily reflecting assets associated with certain commodity and treasury hedging transactions.
- Property, plant and equipment was higher in 2010, reflecting an increase in construction in progress of \$32.3 million not paid as of December 31, 2010 and capital additions of \$179.5 million which more than offset depreciation expense of \$169.7 million. Accelerated depreciation of fixed assets of \$12.4 million at a manufacturing facility which will be closed as well as certain asset retirements resulted primarily from the Next Century program.

- Goodwill and other intangibles decreased as a result of the goodwill impairment charge recorded to reduce the carrying value of Godrej Hershey Ltd. to its fair value.
- Other assets decreased primarily due to the change in the funded status of our pension plans.

## Liabilities

A summary of our liabilities is as follows:

<u>December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>
Current liabilities	<b>\$ 1,298,845</b>	\$ 910,628
Long-term debt	<b>1,541,825</b>	1,502,730
Other long-term liabilities	<b>494,461</b>	501,334
Total liabilities	<b><u>\$ 3,335,131</u></b>	<b><u>\$ 2,914,692</u></b>

- Changes in current liabilities from 2009 to 2010 were primarily the result of the following:
  - Higher accounts payable reflecting the timing of inventory deliveries to support manufacturing requirements, higher capital expenditures associated with the Next Century program and increased spending for advertising;
  - Higher accrued liabilities primarily associated with the Next Century program as well as advertising and promotions; and
  - An increase in the current portion of long-term debt reflecting the reclassification of \$250 million of 5.3% Notes maturing in September 2011 to current liabilities.
- An increase in long-term debt reflecting the issuance of \$350 million of 4.125% Notes due in December 2020, partially offset by the reclassification of \$250 million of Notes described above as well as the repurchase of \$57.5 million of 6.95% Notes due in 2012 as part of a cash tender offer. Additional information on the cash tender offer and debt issuance is available in the Liquidity and Capital Resources section.

## Capital Structure

We have two classes of stock outstanding, Common Stock and Class B Stock. Holders of the Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors. Holders of the Common Stock have one vote per share. Holders of the Class B Stock have 10 votes per share. Holders of the Common Stock, voting separately as a class, are entitled to elect one-sixth of our Board of Directors. With respect to dividend rights, holders of the Common Stock are entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

Hershey Trust Company, as trustee for the benefit of Milton Hershey School (the "Milton Hershey School Trust" or the "Trust") maintains voting control over The Hershey Company. In addition, the Milton Hershey School Trust currently has three representatives who are members of the Board of Directors of the Company, one of whom is the Chairman of the Board. These representatives, from time to time in performing their responsibilities on the Company's Board, may exercise influence with regard to the ongoing business decisions of our Board of Directors or management. The Trust has indicated that, in its role as controlling stockholder of the Company, it intends to retain its controlling interest in The Hershey Company and the Company Board, and not the Trust Board, is solely responsible and accountable for the Company's management and performance.

The Milton Hershey School Trust decided to explore a sale of The Hershey Company in June 2002, but subsequently decided to terminate the sale process in September 2002. After terminating the sale process, the Trustee of the Milton Hershey School Trust advised the Pennsylvania Office of Attorney General in September 2002 that it would not agree to any sale of its controlling interest in The Hershey Company without approval of

the court having jurisdiction over the Milton Hershey School Trust following advance notice to the Office of Attorney General. Subsequently, Pennsylvania enacted legislation that requires that the Office of Attorney General be provided advance notice of any transaction that would result in the Milton Hershey School Trust no longer having voting control of the Company. The law provides specific statutory authority for the Attorney General to intercede and petition the Court having jurisdiction over the Milton Hershey School Trust to stop such a transaction if the Attorney General can prove that the transaction is unnecessary for the future economic viability of the Company and is inconsistent with investment and management considerations under fiduciary obligations. This legislation could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock and thereby delay or prevent a change in control of the Company.

In December 2000, our Board of Directors unanimously adopted a Stockholder Protection Rights Agreement and declared a dividend of 1 right (“Right”) for each outstanding share of Common Stock and Class B Stock payable to stockholders of record at the close of business on December 26, 2000. The Rights at no time had voting power or received dividends. The issuance of the Rights had no dilutive effect, did not affect reported earnings per share and was not taxable. The Rights did not change the manner in which our Common Stock was traded. The Rights expired on December 15, 2010.

### **Noncontrolling Interests in Subsidiaries**

As of January 1, 2009, the Company adopted a Financial Accounting Standards Board (“FASB”) accounting standard that establishes new accounting and reporting requirements for the noncontrolling interest in a subsidiary (formerly known as minority interest) and for the deconsolidation of a subsidiary and requires the noncontrolling interest to be reported as a component of equity. In addition, changes in a parent’s ownership interest while the parent retains its controlling interest will be accounted for as equity transactions, and any retained noncontrolling equity investment upon the deconsolidation of a subsidiary will be measured initially at fair value.

In May 2007, we entered into an agreement with Godrej Beverages and Foods, Ltd. 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 the contributions in 2009 and 2010. 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 the cooperative agreement with 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 \$39.9 million as of December 31, 2009 to \$35.3 million as of December 31, 2010 reflected the noncontrolling interests’ share of losses of these entities, including the noncontrolling interests’ share of the goodwill impairment charge recorded for Godrej Hershey Ltd. These decreases were partially offset by the noncontrolling interests’ contributions in Godrej Hershey Ltd. and Hershey do Brasil described above as well as the impact of foreign currency translation adjustments. The share of losses pertaining to the noncontrolling interests in subsidiaries was \$8.2 million for the year ended December 31, 2010, \$4.1 million for the year ended December 31, 2009 and \$6.1 million for the year ended December 31, 2008. This was reflected in selling, marketing and administrative expenses.



## LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity is operating cash flows. Our net income and, consequently, our cash provided from operations are impacted by: sales volume, seasonal sales patterns, timing of new product introductions, profit margins and price changes. Sales are typically higher during the third and fourth quarters of the year due to seasonal and holiday-related sales patterns. Generally, working capital needs peak during the summer months. We meet these needs primarily by issuing commercial paper.

### Cash Flows from Operating Activities

Our cash flows provided from (used by) operating activities were as follows:

<u>For the years ended December 31,</u> <u>In thousands of dollars</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net income	\$509,799	\$ 435,994	\$ 311,405
Depreciation and amortization	197,116	182,411	249,491
Stock-based compensation and excess tax benefits	30,670	30,472	22,196
Deferred income taxes	(18,654)	(40,578)	(17,125)
Business realignment and impairment charges, net of tax	77,935	60,823	119,117
Contributions to pension plans	(6,073)	(54,457)	(32,759)
Working capital	96,853	157,812	65,791
Changes in other assets and liabilities	13,777	293,272	(198,555)
Net cash provided from operating activities	<u>\$901,423</u>	<u>\$1,065,749</u>	<u>\$ 519,561</u>

- Over the past three years, total cash provided from operating activities was approximately \$2.5 billion.
- Depreciation and amortization expenses increased in 2010, as compared with 2009, principally as the result of higher accelerated depreciation charges related to the Next Century program compared with accelerated depreciation charges related to the global supply chain transformation program recorded in 2009. Depreciation and amortization expenses decreased in 2009 in comparison with 2008 due to lower accelerated depreciation charges related to the GSCT program in 2009 than in 2008. Accelerated depreciation recorded in 2010 was approximately \$12.4 million compared with approximately \$4.2 million recorded in 2009 and \$60.6 million recorded in 2008. Depreciation and amortization expenses represent non-cash items that impacted net income and are reflected in the consolidated statements of cash flows to reconcile cash flows from operating activities.
- Cash used by deferred income taxes was lower in 2010 than in 2009 primarily as a result of the impact of deferred taxes associated with charges recorded in 2010 for the Next Century program, as compared with the tax impact associated with hedging transactions in 2009. Cash used by deferred income taxes in 2008 primarily reflected the impact of deferred taxes associated with business realignment and impairment charges recorded during 2008.
- We contributed \$93.3 million to our pension plans over the past three years to improve the plans' funded status and to pay benefits under the non-funded plans. As of December 31, 2010, our pension benefit obligations exceeded the fair value of our pension plan assets by \$49.4 million.
- Over the three-year period, cash provided from working capital tended to fluctuate due to the timing of sales and cash collections during December of each year and working capital management practices, including initiatives implemented to reduce working capital. Changes in cash provided by accounts payable over the three-year period principally related to the timing of inventory deliveries to meet manufacturing requirements and, in 2010, also reflected increases in accounts payable associated with the timing of expenditures for advertising. Changes in cash provided from inventories in 2009 was primarily associated with initiatives to improve sales forecasting and inventory planning.

- During the three-year period, cash provided from or used by changes in other assets and liabilities reflected the effect of hedging transactions and the impact of business realignment initiatives, along with the related tax effects. The decrease in cash provided by changes in other assets and liabilities from 2009 to 2010 was primarily associated with the effect of hedging transactions of \$193.8 million and the effect of changes in deferred and accrued income taxes of \$94.3 million, partially offset by a decrease in cash used by business realignment initiatives of \$88.8 million. The increase in cash provided by changes in other assets and liabilities from 2008 to 2009 primarily reflected the effect of hedging transactions of \$223.9 million, a decrease in the use of cash for business realignment initiatives of \$63.3 million and tax impacts of \$150.5 million.
- The increase in interest paid in 2010 versus 2009 was primarily attributable to the \$5.9 million premium paid for the repurchase of debt under a cash tender offer. Additional information on the cash tender offer is provided under Cash Flows from Financing Activities.
- The increase in income taxes paid in 2010 compared with 2009 primarily reflected the impact of higher taxable income for 2010.

### Cash Flows from Investing Activities

Our cash flows provided from (used by) investing activities were as follows:

<u>For the years ended December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital additions	<b>\$(179,538)</b>	\$(126,324)	\$(262,643)
Capitalized software additions	<b>(21,949)</b>	(19,146)	(20,336)
Proceeds from sales of property, plant and equipment	<b>2,201</b>	10,364	82,815
Business acquisition	—	(15,220)	—
Proceeds from divestitures	—	—	1,960
Net cash used by investing activities	<b><u>\$(199,286)</u></b>	<b><u>\$(150,326)</u></b>	<b><u>\$(198,204)</u></b>

- Capital additions in 2010 associated with our Next Century program were approximately \$34.0 million. Capital additions included \$46.3 million in 2009 and \$162.6 million in 2008 related to the global supply chain transformation program. Other capital additions were primarily related to modernization of existing facilities and purchases of manufacturing equipment for new products.
- Capitalized software additions were primarily for ongoing enhancement of our information systems.
- Over the past three years, total proceeds from the sale of manufacturing facilities and related equipment under the global supply chain transformation program were approximately \$95.4 million.
- We anticipate total capital expenditures, including capitalized software, of approximately \$350 million to \$370 million in 2011, of which approximately \$180 million to \$190 million is associated with our Next Century program.
- In March 2009, our Company completed the acquisition of the Van Houten Singapore consumer business. The purchase price for the acquisition of Van Houten Singapore and a licensing agreement was approximately \$15.2 million.
- In January 2008, our Brazilian subsidiary, Hershey do Brasil, entered into a cooperative agreement with Bauducco. We received approximately \$2.0 million in cash associated with the cooperative agreement in exchange for a 49% interest in Hershey do Brasil.

## Cash Flows from Financing Activities

Our cash flows provided from (used by) financing activities were as follows:

<u>For the years ended December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net change in short-term borrowings	\$ 1,156	\$(458,047)	\$(371,393)
Long-term borrowings	348,208	—	247,845
Repayment of long-term debt	(71,548)	(8,252)	(4,977)
Cash dividends paid	(283,434)	(263,403)	(262,949)
Exercise of stock options and excess tax benefits	93,418	32,773	38,383
Contributions from noncontrolling interests in subsidiaries	10,199	7,322	—
Repurchase of Common Stock	(169,099)	(9,314)	(60,361)
Net cash used by financing activities	<u>\$ (71,100)</u>	<u>\$(698,921)</u>	<u>\$(413,452)</u>

- We use short-term borrowings (commercial paper and bank borrowings) to fund seasonal working capital requirements and ongoing business needs. As a result of long-term borrowings and strong cash flow from operating activities over the last three years, we had no commercial paper borrowings outstanding as of December 31, 2010 and 2009. Additional information on short-term borrowings is included under Borrowing Arrangements below.
- In December 2010, we issued \$350 million of 4.125% Notes due in 2020. The Notes were issued under a shelf registration statement on Form S-3 filed in May 2009 described under Registration Statements below.
- In December 2010, we paid \$63.4 million to repurchase \$57.5 million of our 6.95% Notes due in 2012 as part of a cash tender offer. As a result of the repurchase, we recorded interest expense of \$5.9 million, which reflected the premium paid on the tender offer. We used a portion of the proceeds from the \$350 million of 4.125% Notes issued in December 2010 to fund the repurchase.
- In March 2008, we issued \$250 million of 5.0% Notes due in 2013. The Notes were issued under a shelf registration statement on Form S-3 filed in May 2006 described under Registration Statements below.
- We paid cash dividends of \$213.0 million on our Common Stock and \$70.4 million on our Class B Stock in 2010.
- Cash used for the repurchase of Common Stock was partially offset by cash received from the exercise of stock options.

## Repurchases and Issuances of Common Stock

<u>For the years ended December 31,</u> In thousands	<u>2010</u>		<u>2009</u>		<u>2008</u>	
	<u>Shares</u>	<u>Dollars</u>	<u>Shares</u>	<u>Dollars</u>	<u>Shares</u>	<u>Dollars</u>
Shares repurchased under pre-approved share repurchase programs:						
Open market repurchases	—	\$ —	—	\$ —	—	\$ —
Shares repurchased to replace Treasury Stock issued for stock options and employee benefits	3,932	169,099	252	9,314	1,610	60,361
Total share repurchases	3,932	169,099	252	9,314	1,610	60,361
Shares issued for stock options and employee benefits	(2,964)	(96,627)	(1,215)	(39,616)	(1,595)	(51,992)
Net change	<u>968</u>	<u>\$ 72,472</u>	<u>(963)</u>	<u>\$(30,302)</u>	<u>15</u>	<u>\$ 8,369</u>

- We intend to repurchase shares of Common Stock in order to replace Treasury Stock shares issued for exercised stock options. The value of shares purchased in a given period will vary based on stock options exercised over time and market conditions.
- In December 2006, our Board of Directors approved a \$250 million share repurchase program. As of December 31, 2010, \$100.0 million remained available for repurchases of Common Stock under this program.

### Cumulative Share Repurchases and Issuances

A summary of cumulative share repurchases and issuances is as follows:

	<u>Shares</u>	<u>Dollars</u>
	<u>In thousands</u>	
Shares repurchased under authorized programs:		
Open market repurchases	57,436	\$1,984,431
Repurchases from the Milton Hershey School Trust	11,918	245,550
Shares retired	<u>(1,056)</u>	<u>(12,820)</u>
Total repurchases under authorized programs	68,298	2,217,161
Privately negotiated purchases from the Milton Hershey School Trust	67,282	1,501,373
Shares reissued for stock option obligations, supplemental retirement contributions, and employee stock ownership trust obligations	(33,269)	(898,786)
Shares repurchased to replace reissued shares	<u>30,561</u>	<u>1,232,353</u>
Total held as Treasury Stock as of December 31, 2010	<u>132,872</u>	<u>\$4,052,101</u>

### Borrowing Arrangements

We maintain debt levels we consider prudent based on our cash flow, interest coverage ratio and percentage of debt to capital. We use debt financing to lower our overall cost of capital which increases our return on stockholders' equity.

- In December 2006, we entered into a five-year agreement establishing an unsecured committed revolving credit facility to borrow up to \$1.1 billion, with an option to increase borrowings to \$1.5 billion with the consent of the lenders. During the fourth quarter of 2007, the lenders approved an extension of this agreement by one year in accordance with our option under the agreement. The five-year agreement will now expire in December 2012. As of December 31, 2010, \$1.1 billion was available to borrow under the agreement. The unsecured revolving credit agreement contains certain financial and other covenants, customary representations, warranties, and events of default. As of December 31, 2010, we complied with all of these covenants. We may use these funds for general corporate purposes, including commercial paper backstop and business acquisitions.
- In addition to the revolving credit facility, we maintain lines of credit with domestic and international commercial banks. As of December 31, 2010, we could borrow up to approximately \$77.2 million in various currencies under the lines of credit and as of December 31, 2009, we could borrow up to \$68.9 million.

### Registration Statements

- In May 2009, we filed a shelf registration statement on Form S-3 that registered an indeterminate amount of debt securities. This registration statement was effective immediately upon filing under Securities and Exchange Commission regulations governing "well-known seasoned issuers" (the "WKSI Registration Statement"). This WKSI Registration Statement was filed to replace a May 2006 WKSI Registration Statement which expired in May 2009.

- In December 2010, we issued \$350 million of 4.125% Notes due December 1, 2020. The Notes were issued under the 2009 WKSI Registration Statement.
- In March 2008, we issued \$250 million of 5.0% Notes due April 1, 2013. The Notes were issued under the 2006 WKSI Registration Statement.
- Proceeds from the debt issuances and any other offerings under the WKSI Registration Statement may be used for general corporate requirements. These may include reducing existing borrowings, financing capital additions, funding contributions to our pension plans, future business acquisitions and working capital requirements.

## OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES AND COMMITMENTS

As of December 31, 2010, our contractual cash obligations by year were as follows:

Contractual Obligations	Payments Due by Year						Total
	2011	2012	2013	2014	2015	Thereafter	
	In thousands of dollars						
Unconditional Purchase Obligations	\$ 1,257,100	\$ 565,300	\$ 201,700	\$ 5,600	\$ —	\$ —	\$ 2,029,700
Non-cancelable Operating Leases	14,888	12,771	7,551	6,040	5,559	8,771	55,580
Long-term Debt	261,392	93,651	250,071	71	250,071	947,961	1,803,217
Total Obligations	<u>\$ 1,533,380</u>	<u>\$ 671,722</u>	<u>\$ 459,322</u>	<u>\$ 11,711</u>	<u>\$ 255,630</u>	<u>\$ 956,732</u>	<u>\$ 3,888,497</u>

In entering into contractual obligations, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. We mitigate this risk by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. Our risk is limited to replacing the contracts at prevailing market rates. We do not expect any significant losses resulting from counterparty defaults.

### Purchase Obligations

We enter into certain obligations for the purchase of raw materials. These obligations were primarily in the form of forward contracts for the purchase of raw materials from third-party brokers and dealers. These contracts minimize the effect of future price fluctuations by fixing the price of part or all of these purchase obligations. Total obligations for each year presented above consists of fixed price contracts for the purchase of commodities and unpriced contracts that were valued using market prices as of December 31, 2010.

The cost of commodities associated with the unpriced contracts is variable as market prices change over future periods. We mitigate the variability of these costs to the extent we have entered into commodities futures contracts to hedge our costs for those periods. Increases or decreases in market prices are offset by gains or losses on commodities futures contracts. This applies to the extent that we have hedged the unpriced contracts as of December 31, 2010 and in future periods by entering into commodities futures contracts. Taking delivery of and making payments for the specific commodities for use in the manufacture of finished goods satisfies our obligations under the forward purchase contracts. For each of the three years in the period ended December 31, 2010, we satisfied these obligations by taking delivery of and making payment for the specific commodities.

### Asset Retirement Obligations

We have a number of facilities that contain varying amounts of asbestos in certain locations within the facilities. Our asbestos management program is compliant with current applicable regulations. Current regulations

require that we handle or dispose of asbestos in a special manner if such facilities undergo major renovations or are demolished. Plans associated with the closure of a manufacturing facility under the Next Century program may require the removal of asbestos. The estimated liability associated with the possible removal of asbestos from the facility is not material and is included in our estimates. With regard to other facilities, we believe we do not have sufficient information to estimate the fair value of any asset retirement obligations related to those facilities. We cannot specify the settlement date or range of potential settlement dates and, therefore, sufficient information is not available to apply an expected present value technique. We expect to maintain the facilities with repairs and maintenance activities that would not involve or require the removal of asbestos.

As of December 31, 2010, certain real estate associated with the closure of facilities under the global supply chain transformation program is being held for sale. We are not aware of any significant obligations related to the environmental remediation of these facilities which have not been reflected in our current estimates.

### **Income Tax Obligations**

We base our deferred income taxes, accrued income taxes and provision for income taxes upon income, statutory tax rates, the legal structure of our Company and interpretation of tax laws. We are regularly audited by federal, state and foreign tax authorities. From time to time, these audits result in assessments of additional tax. We maintain reserves for such assessments. We adjust the reserves based upon changing facts and circumstances, such as receiving audit assessments or clearing of an item for which a reserve has been established. Assessments of additional tax require cash payments. We are not aware of any significant income tax assessments. The amount of tax obligations is not included in the table of contractual cash obligations by year on page 36 because we are unable to reasonably predict the ultimate amount or timing of settlement of our reserves for income taxes.

### **ACCOUNTING POLICIES AND MARKET RISKS ASSOCIATED WITH DERIVATIVE INSTRUMENTS**

We use certain derivative instruments, from time to time, including interest rate swaps, foreign currency forward exchange contracts and options, and commodities futures and options contracts, to manage interest rate, foreign currency exchange rate and commodity market price risk exposures, respectively. We enter into interest rate swap agreements and foreign exchange forward contracts and options for periods consistent with related underlying exposures. These derivative instruments do not constitute positions independent of those exposures. We enter into commodities futures and options contracts for varying periods. These futures and options contracts are intended to be, and are effective as hedges of market price risks associated with anticipated raw material purchases, energy requirements and transportation costs. We do not hold or issue derivative instruments for trading purposes and are not a party to any instruments with leverage or prepayment features. In entering into these contracts, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. We mitigate this risk by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. We do not expect any significant losses from counterparty defaults.

### **Accounting Policies Associated with Derivative Instruments**

We report the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument as a component of other comprehensive income. We reclassify the effective portion of the gain or loss on these derivative instruments into income in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument resulting from hedge ineffectiveness, if any, must be recognized currently in earnings.

Fair value hedges pertain to derivative instruments that qualify as a hedge of exposures to changes in the fair value of a firm commitment or assets and liabilities recognized on the balance sheet. For fair value hedges, our policy is to record the gain or loss on the derivative instrument in earnings in the period of change together with the offsetting loss or gain on the hedged item. The effect of that accounting is to reflect in earnings the extent to which the hedge is not effective in achieving offsetting changes in fair value.

As of December 31, 2010, we designated and accounted for all derivative instruments, including foreign exchange forward contracts and options, interest rate swap agreements and commodities futures and options contracts, as cash flow hedges. Additional information regarding accounting policies associated with derivative instruments is contained in *Note 6, Derivative Instruments and Hedging Activities*.

The information below summarizes our market risks associated with long-term debt and derivative instruments outstanding as of December 31, 2010. Note 1, Note 6 and Note 7 to the Consolidated Financial Statements provide additional information.

### Long-Term Debt

The table below presents the principal cash flows and related interest rates by maturity date for long-term debt, including the current portion, as of December 31, 2010. We determined the fair value of long-term debt based upon quoted market prices for the same or similar debt issues.

In thousands of dollars except for rates	Maturity Date						Total	Fair Value
	2011	2012	2013	2014	2015	Thereafter		
Long-term Debt	\$261,392	\$93,651	\$250,071	\$ 71	\$250,071	\$947,961	\$1,803,217	\$1,968,737
Interest Rate	5.5%	7.0%	5.0%	4.5%	4.8%	5.8%	5.6%	

We calculated the interest rates on variable rate obligations using the rates in effect as of December 31, 2010.

### Interest Rate Swaps

In order to minimize financing costs and to manage interest rate exposure, from time to time, we enter into interest rate swap agreements.

In March 2009, we entered into forward starting interest rate swap agreements to hedge interest rate exposure related to the anticipated \$250 million of term financing expected to be executed during 2011 to repay \$250 million of 5.3% Notes maturing in September 2011. The weighted-average fixed rate on the forward starting swap agreements was 3.5%. The fair value of interest rate swap agreements was a net liability of \$8.9 million as of December 31, 2010. Our risk related to interest rate swap agreements is limited to the cost of replacing such agreements at prevailing market rates. As of December 31, 2010, the potential net loss associated with interest rate swap agreements resulting from a hypothetical near-term adverse change in interest rates of ten percent was approximately \$3.5 million.

In December 2010, we terminated forward starting swap agreements which were entered into in August 2010 to hedge the anticipated execution of term financing. The swap agreements were terminated upon the issuance of the 4.125% Notes due December 1, 2020, resulting in cash receipts of \$13.5 million. The \$13.5 million gain on the swap agreements will be amortized as a reduction to interest expense over the term of the Notes.

For more information see *Note 6, Derivative Instruments and Hedging Activities*.

### Foreign Exchange Forward Contracts and Options

We enter into foreign exchange forward contracts and options to hedge transactions denominated in foreign currencies. These transactions are primarily purchase commitments or forecasted purchases of equipment, raw materials and finished goods. We also may hedge payment of forecasted intercompany transactions with our subsidiaries outside of the United States. These contracts reduce currency risk from exchange rate movements. We generally hedge foreign currency price risks for periods from 3 to 24 months.

Foreign exchange forward contracts are effective as hedges of identifiable foreign currency commitments. We designate our foreign exchange forward contracts as cash flow hedging derivatives. The fair value of these contracts is classified as either an asset or liability on the Consolidated Balance Sheets. We record gains and losses on these contracts as a component of other comprehensive income and reclassify them into earnings in the same period during which the hedged transaction affects earnings.

A summary of foreign exchange forward contracts and the corresponding amounts at contracted forward rates is as follows:

<u>December 31,</u> In millions of dollars	2010		2009	
	<u>Contract Amount</u>	<u>Primary Currencies</u>	<u>Contract Amount</u>	<u>Primary Currencies</u>
Foreign exchange forward contracts to purchase foreign currencies	\$ 73.5	Euros Canadian dollars	\$ 2.7	Euros Swiss francs
Foreign exchange forward contracts to sell foreign currencies	\$ 150.3	Canadian dollars	\$ 106.3	Canadian dollars

We define the fair value of foreign exchange forward contracts as the amount of the difference between the contracted and current market foreign currency exchange rates at the end of the period. We estimate the fair value of foreign exchange forward contracts on a quarterly basis by obtaining market quotes of spot and forward rates for contracts with similar terms, adjusted where necessary for maturity differences.

A summary of the fair value and market risk associated with foreign exchange forward contracts is as follows:

<u>December 31,</u> In millions of dollars	<u>2010</u>	<u>2009</u>
Fair value of foreign exchange forward contracts, net— asset (liability)	\$ 2.0	\$ (4.8)
Potential net loss associated with foreign exchange forward contracts resulting from a hypothetical near-term adverse change in market rates of ten percent	\$24.7	\$10.9

Our risk related to foreign exchange forward contracts is limited to the cost of replacing the contracts at prevailing market rates.

#### Commodities—Price Risk Management and Futures Contracts

Our most significant raw material requirements include cocoa products, sugar, dairy products, peanuts and almonds. The cost of cocoa products and prices for related futures contracts historically have been subject to wide fluctuations attributable to a variety of factors. These factors include:

- 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.



We use futures and options contracts in combination with forward purchasing of cocoa products, sugar, corn sweeteners, natural gas, fuel oil and certain dairy products primarily to provide favorable pricing opportunities and flexibility in sourcing our raw material and energy requirements. We attempt to minimize the effect of future price fluctuations related to the purchase of raw materials by using forward purchasing to cover future manufacturing requirements generally for 3 to 24 months. However, the dairy futures markets are not as developed as many of the other commodities futures markets and, therefore, it is difficult to hedge our costs for dairy products by entering into futures contracts or other derivative instruments to extend coverage for long periods of time. We use fuel oil futures contracts to minimize price fluctuations associated with our transportation costs. Our commodity procurement practices are intended to reduce the risk of future price increases and provide visibility to future costs, but also may potentially limit our ability to benefit from possible price decreases.

During 2010, the average cocoa futures contract prices increased slightly compared with 2009, and traded in a range between \$1.26 and \$1.53 per pound, based on the IntercontinentalExchange futures contract. Cocoa futures prices during 2010 traded at prices which were near 30-year highs. The sustained high cocoa futures prices reflected concern over long-term growth capabilities in the Ivory Coast and continued interest in commodities as an investment by various hedge funds.

During 2010, prices for dairy products started the year slightly above \$.14 per pound and increased to approximately \$.18 per pound on a class II fluid milk basis. Prices are stronger in the face of strong demand for dairy products and tight supply of butterfat. Our costs for certain dairy products may not necessarily reflect market price fluctuations because of our forward purchasing practices.

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 2010, sugar supplies in the U.S. were negatively impacted by government import restrictions, strong demand and high world market prices. As a result, refined sugar prices increased significantly, trading in a range from \$.48 to \$.66 per pound. Our costs for sugar will not necessarily reflect market price fluctuations primarily because of our forward purchasing and hedging practices.

We make or receive cash transfers to or from commodity futures brokers on a daily basis reflecting changes in the value of futures contracts on the IntercontinentalExchange or various other exchanges. These changes in value represent unrealized gains and losses. We report these cash transfers as a component of other comprehensive income. The cash transfers offset higher or lower cash requirements for the payment of future invoice prices of raw materials, energy requirements and transportation costs. Futures held in excess of the amount required to fix the price of unpriced physical forward contracts are effective as hedges of anticipated purchases.

## Commodity Position Sensitivity Analysis

The following sensitivity analysis reflects our market risk to a hypothetical adverse market price movement of 10%, based on our net commodity positions at four dates spaced equally throughout the year. Our net commodity positions consist of the amount of futures contracts we hold over or under the amount of futures contracts we need to price unpriced physical forward contracts for the same commodities. Inventories, priced forward contracts and estimated anticipated purchases not yet under contract were not included in the sensitivity analysis calculations. We define a loss, for purposes of determining market risk, as the potential decrease in fair value or the opportunity cost resulting from the hypothetical adverse price movement. The fair values of net commodity positions reflect quoted market prices or estimated future prices, including estimated carrying costs corresponding with the future delivery period.

<u>For the years ended December 31,</u>	2010		2009	
	<u>Fair Value</u>	<u>Market Risk (Hypothetical 10% Change)</u>	<u>Fair Value</u>	<u>Market Risk (Hypothetical 10% Change)</u>
<b>In millions of dollars</b>				
Highest long position	<b>\$(386.2)</b>	<b>\$38.6</b>	\$(209.0)	\$20.9
Lowest long position	<b>(594.6)</b>	<b>59.5</b>	(513.2)	51.3
Average position (long)	<b>(489.8)</b>	<b>49.0</b>	(363.1)	36.3

The decrease in fair values from 2009 to 2010 primarily reflected a decrease in net commodity positions. The negative positions primarily resulted as unpriced physical forward contract futures requirements exceeded the amount of commodities futures that we held at certain points in time during the years.

## USE OF ESTIMATES AND OTHER CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with GAAP. In various instances, GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We believe that our most critical accounting policies and estimates relate to the following:

- Accounts Receivable—Trade
- Accrued Liabilities
- Pension and Other Post-Retirement Benefits Plans
- Goodwill and Other Intangible Assets
- Commodities Futures Contracts

Management has discussed the development, selection and disclosure of critical accounting policies and estimates with the Audit Committee of our Board of Directors. While we base estimates and assumptions on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from these estimates and assumptions. We discuss our significant accounting policies in *Note 1, Summary of Significant Accounting Policies*.

### Accounts Receivable—Trade

In the normal course of business, we extend credit to customers that satisfy pre-defined credit criteria based upon the results of our recurring financial account reviews and our evaluation of the current and projected economic conditions. Our primary concentrations of credit risk are associated with McLane Company, Inc. and Wal-Mart Stores, Inc. McLane Company, Inc. is one of the largest wholesale distributors in the United States to convenience stores, drug stores, wholesale clubs and mass merchandisers. McLane Company, Inc. accounted for

approximately 16.1% of our total accounts receivable as of December 31, 2010. Wal-Mart Stores, Inc. accounted for approximately 14.5% of our total accounts receivable as of December 31, 2010. As of December 31, 2010, no other customers accounted for more than 10% of our total accounts receivable. We believe that we have little concentration of credit risk associated with the remainder of our customer base.

Accounts Receivable—Trade, as shown on the Consolidated Balance Sheets, were net of allowances and anticipated discounts. An allowance for doubtful accounts is determined through analysis of the following:

- Aging of accounts receivable at the date of the financial statements;
- Assessments of collectability based on historical trends; and
- Evaluation of the impact of current and projected economic conditions.

We monitor the collectability of our accounts receivable on an ongoing basis by analyzing aged accounts receivable, assessing the credit worthiness of our customers and evaluating the impact of reasonably likely changes in economic conditions that may impact credit risks. Estimates with regard to the collectability of accounts receivable are reasonably likely to change in the future.

Information on our Accounts Receivable—Trade, related expenses and assumptions is as follows:

<u>For the three-year period</u> In millions of dollars, except percents	<u>2008-2010</u>
Average expense for potential uncollectible accounts	\$1.8
Average write-offs of uncollectible accounts	\$1.9
Allowance for doubtful accounts as a percentage of gross accounts receivable	1%-2%

- We recognize the provision for uncollectible accounts as selling, marketing and administrative expense in the Consolidated Statements of Income.
- If we made reasonably possible near-term changes in the most material assumptions regarding collectability of accounts receivable, our annual provision could change within the following range:
  - A reduction in expense of approximately \$4.9 million; and
  - An increase in expense of approximately \$3.9 million.
- Changes in estimates for future uncollectible accounts receivable would not have a material impact on our liquidity or capital resources.

#### Accrued Liabilities

Accrued liabilities requiring the most difficult or subjective judgments include liabilities associated with marketing promotion programs and potentially unsaleable products.

##### *Liabilities associated with marketing promotion programs*

We recognize the costs of marketing promotion programs as a reduction to net sales along with a corresponding accrued liability based on estimates at the time of revenue recognition.

Information on our promotional costs and assumptions is as follows:

<u>For the years ended December 31,</u> In millions of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
Promotional costs	<b>\$767.6</b>	\$721.5	\$766.6

- We determine the amount of the accrued liability by:
  - Analysis of programs offered;
  - Historical trends;
  - Expectations regarding customer and consumer participation;
  - Sales and payment trends; and
  - Experience with payment patterns associated with similar, previously offered programs.
- The estimated costs of these programs are reasonably likely to change in the future due to changes in trends with regard to customer and consumer participation, particularly for new programs and for programs related to the introduction of new products.
- Reasonably possible near-term changes in the most material assumptions regarding the cost of promotional programs could result in changes within the following range:
  - A reduction in costs of approximately \$14.4 million; and
  - An increase in costs of approximately \$5.6 million.
- Changes in these assumptions would affect net sales and income before income taxes.
- Over the three-year period ended December 31, 2010, actual promotion costs have not deviated from the estimated amounts by more than approximately 3%.
- Changes in estimates related to the cost of promotional programs would not have a material impact on our liquidity or capital resources.

*Liabilities associated with potentially unsaleable products*

- At the time of sale, we estimate a cost for the possibility that products will become aged or unsaleable in the future. The estimated cost is included as a reduction to net sales.
- A related accrued liability is determined using statistical analysis that incorporates historical sales trends, seasonal timing and sales patterns, and product movement at retail.
- Estimates for costs associated with unsaleable products may change as a result of inventory levels in the distribution channel, current economic trends, changes in consumer demand, the introduction of new products and changes in trends of seasonal sales in response to promotional programs.
- Over the three-year period ended December 31, 2010, costs associated with aged or unsaleable products have amounted to approximately 2% of gross sales.
- Reasonably possible near-term changes in the most material assumptions regarding the estimates of such costs would have increased or decreased net sales and income before income taxes in a range from \$0.6 million to \$1.2 million.
- Over the three-year period ended December 31, 2010, actual costs have not deviated from our estimates by more than approximately 4%.
- Reasonably possible near-term changes in the estimates of costs associated with unsaleable products would not have a material impact on our liquidity or capital resources.

**Pension and Other Post-Retirement Benefits Plans**

*Overview*

We sponsor a number of defined benefit pension plans. The primary plans are The Hershey Company Retirement Plan and The Hershey Company Retirement Plan for Hourly Employees. These are cash balance

plans that provide pension benefits for most domestic employees hired prior to January 1, 2007. We monitor legislative and regulatory developments regarding cash balance plans, as well as recent court cases, for any impact on our plans. We also sponsor two primary post-retirement benefit plans. The health care plan is contributory, with participants' contributions adjusted annually, and the life insurance plan is non-contributory.

We fund domestic pension liabilities in accordance with the limits imposed by the Employee Retirement Income Security Act of 1974 and federal income tax laws. Beginning January 1, 2008, we complied with the funding requirements of the Pension Protection Act of 2006. We fund non-domestic pension liabilities in accordance with laws and regulations applicable to those plans. We broadly diversify our pension plan assets, consisting primarily of domestic and international common stocks and fixed income securities. Short-term and long-term liabilities associated with benefit plans are primarily determined based on actuarial calculations. These calculations consider payroll and employee data, including age and years of service, along with actuarial assumptions at the date of the financial statements. We take into consideration long-term projections with regard to economic conditions, including interest rates, return on assets and the rate of increase in compensation levels. With regard to liabilities associated with post-retirement benefit plans that provide health care and life insurance, we take into consideration the long-term annual rate of increase in the per capita cost of the covered benefits. We review the discount rate assumptions and revise them annually. The expected long-term rate of return on assets assumption ("asset return assumption") for funded plans is of a longer duration and revised only when long-term asset return projections demonstrate that need.

An employer that is a business entity and sponsors one or more single-employer defined benefit plans is required to:

- Recognize the funded status of a benefit plan—measured as the difference between plan assets at fair value and the benefit obligation—in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation; for any other post-retirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated post-retirement benefit obligation.
- Recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost.
- Measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position.
- Disclose in the notes to financial statements additional information about certain effects on net periodic benefit costs for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation.

#### *Pension Plans*

Our pension plan costs and related assumptions were as follows:

<u>For the years ended December 31,</u> <u>In millions of dollars</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net periodic pension benefit cost (income)	\$35.7	\$48.9	\$(17.4)
<b>Assumptions:</b>			
Average discount rate assumptions—net periodic benefit cost calculation	5.7%	6.4%	6.3%
Average discount rate assumptions—benefit obligation calculation	5.2%	5.7%	6.4%
Asset return assumptions	8.5%	8.5%	8.5%

#### *Net Periodic Pension Benefit Costs*

We recorded net periodic pension benefit expense of \$35.7 million in 2010. The decrease from 2009 was primarily due to the significant increase in the value of pension assets reflecting the actual return on pension

assets and contributions during 2009. Net periodic pension benefit expense of \$48.9 million recorded in 2009 reflected the significant decline in the value of pension assets during 2008 resulting from volatility and deterioration in financial market and economic conditions. We recorded net periodic pension benefit income in 2008 primarily due to the modifications announced in October 2006 which reduced future benefits under The Hershey Company Retirement Plan, The Hershey Company Retirement Plan for Hourly Employees and the Supplemental Executive Retirement Plan and the impact of a higher discount rate assumption as of December 31, 2007. Our periodic pension benefit costs are expected to be slightly higher in 2011. We anticipate a remeasurement of the assets and liabilities of one of our pension plans in the second quarter of 2011 as a result of initiatives under the Next Century program. This could impact periodic pension benefit costs for the year.

Actuarial gains and losses may arise when actual experience differs from assumed experience or when we revise the actuarial assumptions used to value the plans' obligations. We only amortize the unrecognized net actuarial gains and losses in excess of 10% of a respective plan's projected benefit obligation, or the fair market value of assets, if greater. The estimated recognized net actuarial loss component of net periodic pension benefit expense for 2011 is \$29.1 million. The 2010 recognized net actuarial loss component of net periodic pension benefit expense was \$28.5 million. Projections beyond 2011 are dependent on a variety of factors such as changes to the discount rate and the actual return on pension plan assets.

#### *Average Discount Rate Assumption—Net Periodic Benefit Cost (Income)*

The discount rate represents the estimated rate at which we could effectively settle our pension benefit obligations. In order to estimate this rate for 2010, a single effective rate of discount was determined by our actuaries after discounting the pension obligation's cash flows using the spot rate of matching duration from the Towers Watson RATE:Link discount curve. For 2009 and 2008, the rate of discount was determined by our actuaries using the spot rate of matching duration from the Citigroup Pension Discount Curve. We changed to the Towers Watson RATE:Link discount curve in 2010 to obtain more transparency into the underlying securities.

The use of a different discount rate assumption can significantly affect net periodic benefit cost (income):

- A one-percentage point decrease in the discount rate assumption would have increased 2010 net periodic pension benefit expense by \$5.6 million.
- A one-percentage point increase in the discount rate assumption would have decreased 2010 net periodic pension benefit expense by \$5.2 million.

#### *Average Discount Rate Assumption—Benefit Obligations*

The discount rate assumption to be used in calculating the amount of benefit obligations is determined in the same manner as the average discount rate assumption used to calculate net periodic benefit cost (income) as described above. We reduced our 2010 discount rate assumption due to the declining interest rate environment consistent with the duration of our pension plan liabilities.

The use of a different discount rate assumption can significantly affect the amount of benefit obligations:

- A one-percentage point decrease in the discount rate assumption would have increased the December 31, 2010 pension benefits obligations by \$108.7 million.
- A one-percentage point increase in the discount rate assumption would have decreased the December 31, 2010 pension benefits obligations by \$92.0 million.

#### *Asset Return Assumptions*

During 2011, we will be reducing the expected return on plan assets assumption to 8.0% from the 8.5% assumption used during 2010, reflecting lower expected future returns on plan assets. We based the expected return on plan assets component of net periodic pension benefit cost (income) on the fair market value of pension plan assets. To determine the expected return on plan assets, we consider the current and expected asset

allocations, as well as historical and expected returns on the categories of plan assets. The historical geometric average return over the 23 years prior to December 31, 2010 was approximately 8.5%. The actual return on assets was as follows:

<u>For the years ended December 31,</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actual return (loss) on assets	13.3%	21.2%	(24.1%)

The use of a different asset return assumption can significantly affect net periodic benefit cost (income):

- A one-percentage point decrease in the asset return assumption would have increased 2010 net periodic pension benefit expense by \$9.1 million.
- A one-percentage point increase in the asset return assumption would have decreased 2010 net periodic pension benefit expense by \$9.0 million.

Our investment policies specify ranges of allocation percentages for each asset class. The ranges for the domestic pension plans were as follows:

<u>Asset Class</u>	<u>Allocation Range</u>
Equity securities	58% – 85%
Debt securities	15% – 42%
Cash and certain other investments	0% – 5%

As of December 31, 2010, actual allocations were within the specified ranges. We expect the level of volatility in pension plan asset returns to be in line with the overall volatility of the markets and weightings within the asset classes. As of December 31, 2010 and 2009, the benefit plan fixed income assets were invested primarily in conventional instruments benchmarked to the Barclays Capital U.S. Aggregate Bond Index.

For 2010 and 2009, minimum funding requirements for the plans were not material. However, we made contributions of \$6.1 million in 2010 and \$54.5 million in 2009 to improve the funded status of our qualified plans and for the payment of benefits under our non-qualified pension plans. These contributions were fully tax deductible. A one-percentage point change in the funding discount rate would not have changed the 2010 minimum funding requirements significantly for the domestic plans. For 2011, there are no significant minimum funding requirements for our pension plans and currently planned voluntary funding of our pension plans in 2011 is not material.

#### *Post-Retirement Benefit Plans*

Other post-retirement benefit plan costs and related assumptions were as follows:

<u>For the years ended December 31,</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>In millions of dollars</u>			
Net periodic other post-retirement benefit cost	\$17.5	\$19.9	\$21.9
<b>Assumptions:</b>			
Average discount rate assumption	5.7%	6.4%	6.3%

The use of a different discount rate assumption can significantly affect net periodic other post-retirement benefit cost:

- A one-percentage point decrease in the discount rate assumption would have decreased 2010 net periodic other post-retirement benefit cost by \$1.1 million.
- A one-percentage point increase in the discount rate assumption would not have impacted 2010 net periodic other post-retirement benefit cost.

For the domestic post-retirement benefit plan, a decrease in the discount rate assumption would result in a decrease in benefit cost because of the lower interest cost which would more than offset the impact of the lower discount rate assumption on the post-retirement benefit obligation.

Other post-retirement benefit obligations and assumptions were as follows:

<u>December 31,</u> In millions of dollars	<u>2010</u>	<u>2009</u>
Other post-retirement benefit obligation	<b>\$306.3</b>	\$324.6
<b>Assumptions:</b>		
Benefit obligations discount rate assumption	5.2%	5.7%

- A one-percentage point decrease in the discount rate assumption would have increased the December 31, 2010 other post-retirement benefits obligations by \$30.9 million.
- A one-percentage point increase in the discount rate assumption would have decreased the December 31, 2010 other post-retirement benefits obligations by \$25.8 million.

### Goodwill and Other Intangible Assets

We account for goodwill and other intangible assets by classifying intangible assets into three categories: (1) intangible assets with definite lives subject to amortization; (2) intangible assets with indefinite lives not subject to amortization; and (3) goodwill. For intangible assets with definite lives, impairment testing is required if conditions exist that indicate the carrying value may not be recoverable. For intangible assets with indefinite lives and for goodwill, impairment testing is required at least annually or more frequently if events or circumstances indicate that these assets might be impaired.

We use a two-step process to evaluate goodwill for impairment. In the first step, we compare the fair value of each reporting unit with the carrying amount of the reporting unit, including goodwill. We estimate the fair value of the reporting unit based on discounted future cash flows. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, we complete a second step to determine the amount of the goodwill impairment that we should record. In the second step, we determine an implied fair value of the reporting unit's goodwill by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets). We compare the resulting implied fair value of the goodwill to the carrying amount and record an impairment charge for the difference.

The assumptions we used to estimate fair value are based on the past performance of each reporting unit and reflect the projections and assumptions that we use in current operating plans. We also consider assumptions that market participants may use. Such assumptions are subject to change due to changing economic and competitive conditions.

We perform annual impairment tests of goodwill at the beginning of the fourth quarter of each year or when circumstances arise that indicate a possible impairment might exist. As a result of recent operating performance that was below expectations, we completed an impairment evaluation of goodwill and other intangible assets associated with Godrej Hershey Ltd. during the second quarter of 2010. Based on this evaluation, we recorded a non-cash goodwill impairment charge of \$44.7 million in the second quarter, including a reduction to reflect the share of the charge associated with the noncontrolling interests. We determined that none of our goodwill was impaired as of December 31, 2010. The fair value of our Godrej Hershey Ltd. reporting unit exceeded its carrying value by approximately 7%. As of December 31, 2010, the goodwill allocated to the reporting unit was approximately \$27.9 million. The assumptions used to estimate fair value were based on the past performance of the reporting unit as well as the projections incorporated in our current operating plans. Significant assumptions and estimates included in our current operating plans were associated with sales growth, profitability, and related



cash flows, along with cash flows associated with taxes and capital spending. The discount rate used to estimate fair value was risk adjusted in consideration of the economic conditions of the reporting unit. We also considered assumptions that market participants may use. By their nature, these projections and assumptions are uncertain. Potential events and circumstances that could have an adverse effect on our assumptions include the unavailability of raw or packaging materials or significant cost increases, pricing constraints and possible disruptions to our supply chain. The fair values of our other reporting units were substantially in excess of their carrying values.

Our other intangible assets consist primarily of customer-related intangible assets, patents and trademarks obtained through business acquisitions. We amortize customer-related intangible assets and patents over their estimated useful lives. The useful lives of existing trademarks that were determined to be indefinite are not amortized. We evaluate our trademarks for impairment by comparing the carrying amount of the assets to their estimated fair value. The fair value of trademarks is calculated using a “relief from royalty payments” methodology. This approach involves two steps. In the first step, we estimate reasonable royalty rates for each trademark. In the second step, we apply these royalty rates to a net sales stream and discount the resulting cash flows to determine fair value. This fair value is then compared with the carrying value of each trademark. If the estimated fair value is less than the carrying amount, we record an impairment charge to reduce the asset to its estimated fair value. The estimates of future cash flows are generally based on past performance of the brands and reflect net sales projections and assumptions for the brands that we use in current operating plans. We also consider assumptions that market participants may use. Such assumptions are subject to change due to changing economic and competitive conditions.

We perform annual impairment tests and re-evaluate the useful lives of other intangible assets with indefinite lives at the beginning of the fourth quarter of each year or when circumstances arise that indicate a possible impairment might exist. We determined that none of our other intangible assets was impaired as of December 31, 2010 and December 31, 2009. In December 2008, we recorded total non-cash impairment charges of \$45.7 million. We determined that the carrying amounts of certain trademarks, primarily the *Mauna Loa* brand, exceeded their estimated fair value due to reduced expectations for future sales and cash flows compared with the valuations at the acquisition dates.

### Commodities Futures and Options Contracts

We use futures and options contracts in combination with forward purchasing of cocoa products and other commodities primarily to reduce the risk of future price increases, provide visibility to future costs and take advantage of market fluctuations. Additional information with regard to accounting policies associated with commodities futures and options contracts and other derivative instruments is contained in *Note 6, Derivative Instruments and Hedging Activities*.

Our gains (losses) on cash flow hedging derivatives were as follows:

<u>For the years ended December 31,</u> In millions of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net after-tax gains on cash flow hedging derivatives	\$ 1.0	\$78.3	\$ 11.5
Reclassification adjustments from accumulated other comprehensive loss to income	(32.5)	1.9	(34.1)
Hedge ineffectiveness gains (losses) recognized in cost of sales, before tax	.8	.2	(.1)

- We reflected reclassification adjustments related to gains or losses on commodities futures and options contracts in cost of sales.
- No gains or losses on commodities futures and options contracts resulted because we discontinued a hedge due to the probability that the forecasted hedged transaction would not occur.

- We recognized no components of gains or losses on commodities futures and options contracts in income due to excluding such components from the hedge effectiveness assessment.

The amount of net gains on cash flow hedging derivatives, including foreign exchange forward contracts and options, interest rate swap agreements and commodities futures and options contracts, expected to be reclassified into earnings in the next 12 months was approximately \$20.7 million after tax as of December 31, 2010. This amount was primarily associated with commodities futures contracts.

## OUTLOOK

The outlook section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially. Refer to Risk Factors beginning on page 10 for information concerning the key risks to achieving our future performance goals.

We expect the economic environment to continue to be challenging in 2011. In this environment, we will continue to build our business by focusing on a consumer-driven approach to core brand investment and new product innovation in North America, along with investments in our strategic international businesses.

We will continue to focus on our core brands and leverage the Company's scale at retail during 2011. We exited 2010 with momentum and expect to build on our success in 2011 as we have a number of initiatives planned to drive growth across our markets, including the U.S. launch of *Hershey's Drops*, *Reese's Minis* and other new products. We will also continue the disciplined roll-out and distribution of the *Hershey's* and *Hershey's Kisses* brands in select key emerging markets where we are gaining consumer awareness and trial.

In 2011, we expect advertising to increase in the mid-single digits on a percentage basis versus last year, supporting new product launches and core brands in both the United States and international markets. We expect 2011 net sales growth to be around the top of our 3% to 5% long-term objective.

Commodity markets remain volatile and we expect significantly higher input costs in 2011 compared with 2010. We have visibility into our cost structure for 2011; however, the risk of cost increases remains for certain inputs, such as dairy products, which we are not able to effectively hedge. We expect to substantially offset higher input costs in 2011 through productivity and cost savings initiatives which are in place and we estimate that 2011 adjusted gross margin will be about the same as in 2010. As a result, we expect 2011 adjusted earnings per share-diluted growth to be around the top of our long-term 6% to 8% objective.

**Note:** In the Outlook above, the Company has provided income measures excluding certain items, in addition to net income determined in accordance with GAAP. These non-GAAP financial measures are used in evaluating results of operations for internal purposes. These non-GAAP measures are not intended to replace the presentation of financial results in accordance with GAAP. Rather, the Company believes exclusion of such items provides additional information to investors to facilitate the comparison of past and present operations.

Below is a reconciliation of GAAP and non-GAAP items to the Company's 2010 and projected 2011 adjusted earnings per share-diluted:

	<u>2010</u>	<u>2011 (Projected)</u>
Reported EPS-Diluted	\$2.21	\$ 2.54 – \$2.63
Total Business Realignment and Impairment Charges	\$0.34	\$ 0.13 – \$0.16
Adjusted EPS-Diluted*	\$2.55	\$ 2.70 – \$2.76

\* Excludes business realignment and impairment charges.

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**Outlook for Project Next Century.**

In June 2010, we announced Project Next Century as part of our ongoing efforts to create an advantaged supply chain and competitive cost structure. We expect total pre-tax charges and non-recurring project implementation costs for the Project Next Century program of \$140 million to \$170 million. During 2011, we expect to record \$45 million to \$55 million in program charges. During 2011, we now expect capital expenditures for Project Next Century to be approximately \$180 million to \$190 million. Depreciation and amortization for 2011 is estimated to be \$175 million to \$185 million, excluding accelerated depreciation of \$15 million to \$20 million related to Project Next Century. When fully implemented, Project Next Century is expected to provide annual cost savings from efficiency improvements of \$60 million to \$80 million.

**Item 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Required information about market risk is included in the section entitled "Accounting Policies and Market Risks Associated with Derivative Instruments," found on pages 37 through 41.

	<u>PAGE</u>
<b>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</b>	
<a href="#">Responsibility for Financial Statements</a>	52
<a href="#">Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements</a>	53
<a href="#">Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008</a>	54
<a href="#">Consolidated Balance Sheets as of December 31, 2010 and 2009</a>	55
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008</a>	56
<a href="#">Consolidated Statements of Stockholders' Equity for the years ended December 31, 2010, 2009 and 2008</a>	57
<a href="#">Notes to Consolidated Financial Statements</a>	58

## RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Hershey Company is responsible for the financial statements and other financial information contained in this report. We believe that the financial statements have been prepared in conformity with U.S. generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

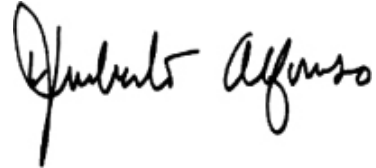
We maintain a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. We believe our system provides an appropriate balance in this regard. We maintain an Internal Audit Department which reviews the adequacy and tests the application of internal accounting controls.

The 2010, 2009 and 2008 financial statements have been audited by KPMG LLP, an independent registered public accounting firm. KPMG LLP's report on our financial statements is included on page 53.

The Audit Committee of the Board of Directors of the Company, consisting solely of independent, non-management directors, meets regularly with the independent auditors, internal auditors and management to discuss, among other things, the audit scopes and results. KPMG LLP and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.



**David J. West**  
*Chief Executive Officer*



**Humberto P. Alfonso**  
*Chief Financial Officer*

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
The Hershey Company:

We have audited the accompanying consolidated balance sheets of The Hershey Company and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, cash flows and stockholders' equity for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Hershey Company and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 18, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**KPMG LP**

New York, New York  
February 18, 2011

**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME**

<u>For the years ended December 31,</u> In thousands of dollars except per share amounts	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Net Sales</b>	<b>\$ 5,671,009</b>	<b>\$ 5,298,668</b>	<b>\$ 5,132,768</b>
<b>Costs and Expenses:</b>			
Cost of sales	3,255,801	3,245,531	3,375,050
Selling, marketing and administrative	1,426,477	1,208,672	1,073,019
Business realignment and impairment charges, net	83,433	82,875	94,801
Total costs and expenses	<u>4,765,711</u>	<u>4,537,078</u>	<u>4,542,870</u>
<b>Income before Interest and Income Taxes</b>	<b>905,298</b>	<b>761,590</b>	<b>589,898</b>
Interest expense, net	96,434	90,459	97,876
<b>Income before Income Taxes</b>	<b>808,864</b>	<b>671,131</b>	<b>492,022</b>
Provision for income taxes	299,065	235,137	180,617
<b>Net Income</b>	<b>\$ 509,799</b>	<b>\$ 435,994</b>	<b>\$ 311,405</b>
<b>Net Income Per Share—Basic—Class B Common Stock</b>	<b>\$ 2.08</b>	<b>\$ 1.77</b>	<b>\$ 1.27</b>
<b>Net Income Per Share—Diluted—Class B Common Stock</b>	<b>\$ 2.07</b>	<b>\$ 1.77</b>	<b>\$ 1.27</b>
<b>Net Income Per Share—Basic—Common Stock</b>	<b>\$ 2.29</b>	<b>\$ 1.97</b>	<b>\$ 1.41</b>
<b>Net Income Per Share—Diluted—Common Stock</b>	<b>\$ 2.21</b>	<b>\$ 1.90</b>	<b>\$ 1.36</b>
<b>Cash Dividends Paid Per Share:</b>			
Common Stock	\$ 1.2800	\$ 1.1900	\$ 1.1900
Class B Common Stock	1.1600	1.0712	1.0712

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

**THE HERSHEY COMPANY**  
**CONSOLIDATED BALANCE SHEETS**

December 31, In thousands of dollars	2010	2009
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 884,642	\$ 253,605
Accounts receivable—trade	390,061	410,390
Inventories	533,622	519,712
Deferred income taxes	55,760	39,868
Prepaid expenses and other	141,132	161,859
Total current assets	2,005,217	1,385,434
<b>Property, Plant and Equipment, Net</b>	<b>1,437,702</b>	<b>1,404,767</b>
<b>Goodwill</b>	<b>524,134</b>	<b>571,580</b>
<b>Other Intangibles</b>	<b>123,080</b>	<b>125,520</b>
<b>Deferred Income Taxes</b>	<b>21,387</b>	<b>4,353</b>
<b>Other Assets</b>	<b>161,212</b>	<b>183,377</b>
Total assets	<u>\$ 4,272,732</u>	<u>\$ 3,675,031</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 410,655	\$ 287,935
Accrued liabilities	593,308	546,462
Accrued income taxes	9,402	36,918
Short-term debt	24,088	24,066
Current portion of long-term debt	261,392	15,247
Total current liabilities	1,298,845	910,628
<b>Long-term Debt</b>	<b>1,541,825</b>	<b>1,502,730</b>
<b>Other Long-term Liabilities</b>	<b>494,461</b>	<b>501,334</b>
Total liabilities	<u>3,335,131</u>	<u>2,914,692</u>
<b>Commitments and Contingencies</b>		
	—	—
<b>Stockholders' Equity:</b>		
The Hershey Company Stockholders' Equity		
Preferred Stock, shares issued: none in 2010 and 2009	—	—
Common Stock, shares issued: 299,195,325 in 2010 and 299,192,836 in 2009	299,195	299,192
Class B Common Stock, shares issued: 60,706,419 in 2010 and 60,708,908 in 2009	60,706	60,709
Additional paid-in capital	434,865	394,678
Retained earnings	4,374,718	4,148,353
Treasury—Common Stock shares, at cost: 132,871,512 in 2010 and 131,903,468 in 2009	(4,052,101)	(3,979,629)
Accumulated other comprehensive loss	(215,067)	(202,844)
The Hershey Company stockholders' equity	902,316	720,459
Noncontrolling interests in subsidiaries	35,285	39,880
Total stockholders' equity	937,601	760,339
Total liabilities and stockholders' equity	<u>\$ 4,272,732</u>	<u>\$ 3,675,031</u>

The notes to consolidated financial statements are an integral part of these balance sheets.



**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<u>For the years ended December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Cash Flows Provided from (Used by) Operating Activities</b>			
Net income	\$ 509,799	\$ 435,994	\$ 311,405
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	197,116	182,411	249,491
Stock-based compensation expense, net of tax of \$17,413, \$19,223 and \$13,265, respectively	32,055	34,927	23,583
Excess tax benefits from exercise of stock options	(1,385)	(4,455)	(1,387)
Deferred income taxes	(18,654)	(40,578)	(17,125)
Business realignment and impairment charges, net of tax of \$20,635, \$38,308 and \$61,553, respectively	77,935	60,823	119,117
Contributions to pension plans	(6,073)	(54,457)	(32,759)
Changes in assets and liabilities, net of effects from business acquisitions and divestitures:			
Accounts receivable—trade	20,329	46,584	31,675
Inventories	(13,910)	74,000	7,681
Accounts payable	90,434	37,228	26,435
Other assets and liabilities	13,777	293,272	(198,555)
Net Cash Provided from Operating Activities	<u>901,423</u>	<u>1,065,749</u>	<u>519,561</u>
<b>Cash Flows Provided from (Used by) Investing Activities</b>			
Capital additions	(179,538)	(126,324)	(262,643)
Capitalized software additions	(21,949)	(19,146)	(20,336)
Proceeds from sales of property, plant and equipment	2,201	10,364	82,815
Business acquisition	—	(15,220)	—
Proceeds from divestitures	—	—	1,960
Net Cash (Used by) Investing Activities	<u>(199,286)</u>	<u>(150,326)</u>	<u>(198,204)</u>
<b>Cash Flows Provided from (Used by) Financing Activities</b>			
Net change in short-term borrowings	1,156	(458,047)	(371,393)
Long-term borrowings	348,208	—	247,845
Repayment of long-term debt	(71,548)	(8,252)	(4,977)
Cash dividends paid	(283,434)	(263,403)	(262,949)
Exercise of stock options	92,033	28,318	36,996
Excess tax benefits from exercise of stock options	1,385	4,455	1,387
Contributions from noncontrolling interests in subsidiaries	10,199	7,322	—
Repurchase of Common Stock	(169,099)	(9,314)	(60,361)
Net Cash (Used by) Financing Activities	<u>(71,100)</u>	<u>(698,921)</u>	<u>(413,452)</u>
Increase (Decrease) in Cash and Cash Equivalents	631,037	216,502	(92,095)
Cash and Cash Equivalents as of January 1	253,605	37,103	129,198
Cash and Cash Equivalents as of December 31	<u>\$ 884,642</u>	<u>\$ 253,605</u>	<u>\$ 37,103</u>
Interest Paid	\$ 97,932	\$ 91,623	\$ 97,364
Income Taxes Paid	350,948	252,230	197,661

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

**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

In thousands of dollars	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Stockholders' Equity
<b>Balance as of January 1, 2008</b>	\$ —	\$ 299,095	\$ 60,806	\$ 335,256	\$3,927,306	\$(4,001,562)	\$ (27,979)	\$ 30,598	\$ 623,520
Net income					311,405				311,405
Other comprehensive loss							(331,929)		(331,929)
Comprehensive loss									(20,524)
Dividends:									
Common Stock, \$1.19 per share					(197,839)				(197,839)
Class B Common Stock, \$1.0712 per share					(65,110)				(65,110)
Conversion of Class B Common Stock into Common Stock		95	(95)						—
Incentive plan transactions				(422)		12,989			12,567
Stock-based compensation				18,161					18,161
Exercise of stock options				(620)		39,003			38,383
Repurchase of Common Stock						(60,361)			(60,361)
Noncontrolling interests in subsidiaries								1,147	1,147
<b>Balance as of December 31, 2008</b>	—	299,190	60,711	352,375	3,975,762	(4,009,931)	(359,908)	31,745	349,944
Net income					435,994				435,994
Other comprehensive income							157,064		157,064
Comprehensive income									593,058
Dividends:									
Common Stock, \$1.19 per share					(198,371)				(198,371)
Class B Common Stock, \$1.0712 per share					(65,032)				(65,032)
Conversion of Class B Common Stock into Common Stock		2	(2)						—
Incentive plan transactions				(355)		4,762			4,407
Stock-based compensation				44,704					44,704
Exercise of stock options				(2,046)		34,854			32,808
Repurchase of Common Stock						(9,314)			(9,314)
Noncontrolling interests in subsidiaries								8,135	8,135
<b>Balance as of December 31, 2009</b>	—	299,192	60,709	394,678	4,148,353	(3,979,629)	(202,844)	39,880	760,339
Net income					509,799				509,799
Other comprehensive loss							(12,223)		(12,223)
Comprehensive income									497,576
Dividends:									
Common Stock, \$1.28 per share					(213,013)				(213,013)
Class B Common Stock, \$1.16 per share					(70,421)				(70,421)
Conversion of Class B Common Stock into Common Stock		3	(3)						—
Incentive plan transactions				(7,453)		10,239			2,786
Stock-based compensation				40,630					40,630
Exercise of stock options				7,010		86,388			93,398
Repurchase of Common Stock						(169,099)			(169,099)
Noncontrolling interests in subsidiaries								(4,595)	(4,595)
<b>Balance as of December 31, 2010</b>	\$ —	\$ 299,195	\$ 60,706	\$ 434,865	\$4,374,718	\$(4,052,101)	\$ (215,067)	\$ 35,285	\$ 937,601

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

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Our significant accounting policies are discussed below and in other notes to the consolidated financial statements. We have made certain reclassifications to prior year amounts to conform to the 2010 presentation.

**Principles of Consolidation**

Our consolidated financial statements 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 minority 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.

In May 2007, we entered into an agreement with Godrej Beverages and Foods, Ltd., to manufacture and distribute confectionery products, snacks and beverages across India. Under the agreement, we own a 51% controlling interest in Godrej Hershey Ltd. This business acquisition is included in our consolidated financial results, including the related noncontrolling interest.

In January 2008, our Brazilian subsidiary, Hershey do Brasil, entered into a cooperative agreement with Pandurata Alimentos LTDA (now Pandurata Netherlands B.V.) (“Bauducco”), a leading manufacturer of baked goods in Brazil whose primary brand is Bauducco. Under this agreement we manufacture and market, and they sell and distribute our products. The agreement conveyed a 49% interest in Hershey do Brasil to Bauducco. We maintain a 51% controlling interest in Hershey do Brasil.

**Equity Investments**

We use the equity method of accounting when we have a 20% to 50% interest in other companies and exercise significant influence. Under the equity method, original investments are recorded at cost and adjusted by our share of undistributed earnings or losses of these companies. Equity investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. In May 2007, we entered into a manufacturing agreement in China with Lotte Confectionery Company, LTD. to produce Hershey products and certain Lotte products for the markets in Asia, particularly China. We own a 44% interest in this entity and are accounting for this investment using the equity method.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Critical accounting estimates involved in applying our accounting policies are those that require management to make assumptions about matters that are highly uncertain at the time the accounting estimate was made and those for which different estimates reasonably could have been used for the current period. Critical accounting estimates are also those which are reasonably likely to change from period to period and would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. Our most critical accounting estimates pertain to accounting policies for accounts receivable—trade; accrued liabilities; pension and other post-retirement benefit plans; and goodwill and other intangible assets.

These estimates and assumptions are based on management’s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors,

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Volatile credit, equity, foreign currency, commodity and energy markets, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

**Revenue Recognition**

We record sales when all of the following criteria have been met:

- A valid customer order with a fixed price has been received;
- The product has been delivered to the customer;
- There is no further significant obligation to assist in the resale of the product; and
- Collectability is reasonably assured.

Net sales include revenue from the sale of finished goods and royalty income, net of allowances for trade promotions, consumer coupon programs and other sales incentives, and allowances and discounts associated with aged or potentially unsaleable products. Trade promotions and sales incentives primarily include reduced price features, merchandising displays, sales growth incentives, new item allowances and cooperative advertising.

**Cost of Sales**

Cost of sales represents costs directly related to the manufacture and distribution of our products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling, warehousing and the depreciation of manufacturing, warehousing and distribution facilities. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance and property taxes.

**Selling, Marketing and Administrative**

Selling, marketing and administrative expenses represent costs incurred in generating revenues and in managing our business. Such costs include advertising and other marketing expenses, salaries, employee benefits, incentive compensation, research and development, travel, office expenses, amortization of capitalized software and depreciation of administrative facilities.

**Cash Equivalents**

Cash equivalents consist of highly liquid debt instruments, time deposits and money market funds with original maturities of 3 months or less. The fair value of cash and cash equivalents approximates the carrying amount.

**Commodities Futures and Options Contracts**

We enter into commodities futures and options contracts to reduce the effect of price fluctuations associated with the purchase of raw materials, energy requirements and transportation services. We report the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

as a component of other comprehensive income and reclassify such gains or losses into earnings in the same period or periods during which the hedged transactions affect earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings.

For a derivative designated as hedging the exposure to changes in the fair value of a recognized asset or liability or a firm commitment (referred to as a fair value hedge), the gain or loss must be recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The effect of that accounting is to reflect in earnings the extent to which the hedge is not effective in achieving offsetting changes in fair value.

All derivative instruments which we are currently utilizing, including commodities futures and options contracts, are designated and accounted for as cash flow hedges. Additional information with regard to accounting policies associated with derivative instruments is contained in *Note 6, Derivative Instruments and Hedging Activities*.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, as follows: 3 to 15 years for machinery and equipment; and 25 to 40 years for buildings and related improvements. Maintenance and repairs are expensed as incurred. We capitalize applicable interest charges incurred during the construction of new facilities and production lines and amortize these costs over the assets' estimated useful lives.

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We measure the recoverability of assets to be held and used by a comparison of the carrying amount of long-lived assets to future undiscounted net cash flows expected to be generated. If these assets are considered to be impaired, we measure impairment as the amount by which the carrying amount of the assets exceeds the fair value of the assets. We report assets held for sale or disposal at the lower of the carrying amount or fair value less cost to sell.

**Asset Retirement Obligations**

Asset retirement obligations generally apply to legal obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction or development and normal operation of a long-lived asset. We assess asset retirement obligations on a periodic basis. We recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. We capitalize associated asset retirement costs as part of the carrying amount of the long-lived asset.

**Goodwill and Other Intangible Assets**

We classify intangible assets into 3 categories: (1) intangible assets with definite lives subject to amortization; (2) intangible assets with indefinite lives not subject to amortization; and (3) goodwill.

Our intangible assets with definite lives consist primarily of customer-related intangible assets and patents. We are amortizing customer-related intangible assets over their estimated useful lives of approximately 12 years. We are amortizing patents over their remaining legal lives of approximately 8 years. We conduct impairment tests when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Undiscounted cash flow analyses are used to determine if an impairment exists. If an impairment is determined to exist, the loss is calculated based on the estimated fair value of the assets.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Our intangible assets with indefinite lives consist of trademarks obtained through business acquisitions. We do not amortize existing trademarks whose useful lives were determined to be indefinite. We conduct impairment tests for other intangible assets with indefinite lives and goodwill at the beginning of the fourth quarter of each year, or when circumstances arise that indicate a possible impairment might exist.

We evaluate our trademarks for impairment by comparing their carrying amount to their estimated fair value. The fair value of trademarks is calculated using a “relief from royalty payments” methodology. This approach involves a two-step process. In the first step, we estimate reasonable royalty rates for each trademark. In the second step, we apply these royalty rates to a net sales stream and discount the resulting cash flows to determine fair value. This fair value is then compared with the carrying value of each trademark. If the estimated fair value is less than the carrying amount, we record an impairment charge to reduce the asset to its estimated fair value. The estimates of future cash flows are generally based on past performance of the brands and reflect net sales projections and assumptions for the brands that we use in current operating plans. We also consider assumptions that market participants may use. Such assumptions are subject to change due to changing economic and competitive conditions.

We use a two-step process to evaluate goodwill for impairment. In the first step, we compare the fair value of each reporting unit with the carrying amount of the reporting unit, including goodwill. We estimate the fair value of the reporting unit based on discounted future cash flows. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, we complete a second step to determine the amount of the goodwill impairment that we should record. In the second step, we determine an implied fair value of the reporting unit’s goodwill by allocating the reporting unit’s fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets). We compare the resulting implied fair value of the goodwill to the carrying amount and record an impairment charge for the difference.

The assumptions we use to estimate fair value are based on the past performance of each reporting unit and reflect the projections and assumptions that we use in current operating plans. We also consider assumptions that market participants may use. Such assumptions are subject to change due to changing economic and competitive conditions.

As a result of recent operating performance that was below expectations, we completed an impairment evaluation of goodwill and other intangible assets of Godrej Hershey Ltd. during the second quarter of 2010. While Godrej Hershey Ltd. has achieved growth, it has been less than initial expectations due to slower realization of development plans and changes in input costs, as well as the macroeconomic environment which delayed distribution expansion and the implementation of new price points. As a result of reduced expectations for future cash flows from lower than expected profitability, we determined that the carrying amount of Godrej Hershey Ltd. exceeded its fair value. The assumptions we used to estimate fair value were based on the past performance of Godrej Hershey Ltd. and reflected the projections and assumptions included in current operating plans. We also considered assumptions that market participants may use. Such assumptions are subject to change due to changing economic and competitive conditions. We recorded a non-cash goodwill impairment charge of \$44.7 million to reduce the carrying value of Godrej Hershey Ltd. to its fair value, including a reduction to reflect the share of the charge associated with the noncontrolling interests. There was no tax benefit associated with this charge.

In December 2008, we recorded total non-cash impairment charges of \$45.7 million. We determined that the carrying amounts of certain trademarks, primarily the *Mauna Loa* brand, exceeded their estimated fair value due to reduced expectations for future sales and cash flows compared with the valuations at the acquisition dates.

We provide more information on intangible assets and the impairment testing results in *Note 18, Supplemental Balance Sheet Information*.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Comprehensive Income**

We report comprehensive income (loss) on the Consolidated Statements of Stockholders' Equity and accumulated other comprehensive income (loss) on the Consolidated Balance Sheets. Additional information regarding comprehensive income is contained in *Note 9, Comprehensive Income*.

We translate results of operations for foreign entities using the average exchange rates during the period. For foreign entities, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded as a component of other comprehensive income (loss), "Foreign Currency Translation Adjustments."

Changes to the balances of the unrecognized prior service cost and the unrecognized net actuarial loss, net of income taxes, associated with our pension and post-retirement benefit plans are recorded as a component of other comprehensive income (loss), "Pension and Post-retirement Benefit Plans." Additional information regarding accounting policies associated with benefit plans is contained in *Note 14, Pension and Other Post-Retirement Benefit Plans*.

Gains and losses on cash flow hedging derivatives, to the extent effective, are included in other comprehensive income (loss), net of related tax effects. Reclassification adjustments reflecting such gains and losses are ratably recorded in income in the same period during which the hedged transactions affect earnings. Additional information with regard to accounting policies associated with derivative instruments is contained in *Note 6, Derivative Instruments and Hedging Activities*.

**Foreign Exchange Forward Contracts and Options**

We enter into foreign exchange forward contracts and options to hedge transactions denominated in foreign currencies. These transactions are primarily related to firm commitments or forecasted purchases of equipment, certain raw materials and finished goods. We also hedge payment of forecasted intercompany transactions with our subsidiaries outside of the United States. These contracts reduce currency risk from exchange rate movements.

Foreign exchange forward contracts and options are intended to be and are effective as hedges of identifiable foreign currency commitments and forecasted transactions. Foreign exchange forward contracts and options are designated as cash flow hedging derivatives and the fair value of such contracts is recorded on the Consolidated Balance Sheets as either an asset or liability. Gains and losses on these contracts are recorded as a component of other comprehensive income and are reclassified into earnings in the same period during which the hedged transactions affect earnings. Additional information with regard to accounting policies for derivative instruments, including foreign exchange forward contracts and options is contained in *Note 6, Derivative Instruments and Hedging Activities*.

**License Agreements**

We enter into license agreements under which we have access to certain trademarks and proprietary technology, and manufacture and/or market and distribute certain products. The rights under these agreements are extendible on a long-term basis at our option subject to certain conditions, including minimum sales and unit volume levels, which we have met. License fees and royalties, payable under the terms of the agreements, are expensed as incurred and included in selling, marketing and administrative expenses.

**Research and Development**

We expense research and development costs as incurred. Research and development expense was \$30.5 million in 2010, \$28.1 million in 2009 and \$28.1 million in 2008. Research and development expense is included in selling, marketing and administrative expenses.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Advertising**

We expense advertising costs as incurred. Advertising expense, which is included in selling, marketing and administrative expenses, was \$391.1 million in 2010, \$241.2 million in 2009 and \$161.1 million in 2008. We had no prepaid advertising expense as of December 31, 2010 and as of December 31, 2009.

**Computer Software**

We capitalize costs associated with software developed or obtained for internal use when both the preliminary project stage is completed and it is probable that computer software being developed will be completed and placed in service. Capitalized costs include only (i) external direct costs of materials and services consumed in developing or obtaining internal-use software, (ii) payroll and other related costs for employees who are directly associated with and who devote time to the internal-use software project and (iii) interest costs incurred, when material, while developing internal-use software. We cease capitalization of such costs no later than the point at which the project is substantially complete and ready for its intended purpose.

The unamortized amount of capitalized software was \$45.5 million as of December 31, 2010 and was \$44.7 million as of December 31, 2009. We amortize software costs using the straight-line method over the expected life of the software, generally 3 to 5 years. Accumulated amortization of capitalized software was \$211.6 million as of December 31, 2010 and \$194.3 million as of December 31, 2009.

We review the carrying value of software and development costs for impairment in accordance with our policy pertaining to the impairment of long-lived assets. Generally, we measure impairment under the following circumstances:

- When internal-use computer software is not expected to provide substantive service potential;
- A significant change occurs in the extent or manner in which the software is used or is expected to be used;
- A significant change is made or will be made to the software program; and
- Costs of developing or modifying internal-use computer software significantly exceed the amount originally expected to develop or modify the software.

**2. ACQUISITIONS AND DIVESTITURES**

In March 2009, we completed the acquisition of the Van Houten Singapore consumer business. The acquisition from Barry Callebaut, AG provides us with an exclusive license of the Van Houten brand name and related trademarks in Asia and the Middle East for the retail and duty free distribution channels. The purchase price for the acquisition of Van Houten Singapore and the licensing agreement was approximately \$15.2 million. Total liabilities assumed were \$3.6 million.

In January 2008, our Brazilian subsidiary, Hershey do Brasil, entered into a cooperative agreement with Bauducco. In the first quarter of 2008, we received approximately \$2.0 million in cash and recorded an other intangible asset of \$13.7 million associated with the cooperative agreement with Bauducco in exchange for our conveying to Bauducco a 49% interest in Hershey do Brasil. We maintain a 51% controlling interest in Hershey do Brasil.

We included results subsequent to the dates of acquisition in the consolidated financial statements. Had the results of the acquisitions been included in the consolidated financial statements for each of the periods presented, the effect would not have been material.



**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**3. BUSINESS REALIGNMENT AND IMPAIRMENT CHARGES**

In June 2010, we announced Project Next Century (the “Next Century program”) as part of our ongoing efforts to create an advantaged supply chain and competitive cost structure. As part of the program, production will transition from the Company’s century-old facility at 19 East Chocolate Avenue in Hershey, Pennsylvania, to a planned expansion of the West Hershey facility, which was built in 1992. Production from the 19 East Chocolate Avenue plant, as well as a portion of the workforce, will be relocated to the West Hershey facility. This change is expected to result in the reduction of approximately 500 to 600 jobs at the two facilities as investments in technology and automation result in enhanced efficiency.

We estimate that the Next Century program will incur pre-tax charges and non-recurring project implementation costs of \$140 million to \$170 million over three years. This estimate includes \$120 million to \$150 million in pre-tax business realignment and impairment charges and approximately \$20 million in project implementation and start-up costs.

During the second quarter of 2010, we completed an impairment evaluation of goodwill and other intangible assets associated with Godrej Hershey Ltd. Based on this evaluation, we recorded a non-cash goodwill impairment charge of \$44.7 million, including a reduction to reflect the share of the charge associated with the noncontrolling interests.

In February 2007, we announced a comprehensive, three-year supply chain transformation program (the “global supply chain transformation program” or “GSCT”). In December 2007, we initiated a business realignment program associated with our business in Brazil. In December 2008, we approved a modest expansion in the scope of the global supply chain transformation program to include the closure of two subscale manufacturing facilities of Artisan Confections Company, a wholly-owned subsidiary. We refer to these programs as “the 2007 business realignment initiatives.”

Total pre-tax charges and non-recurring project implementation costs were \$629.1 million for the GSCT. The GSCT was complete as of December 31, 2009. Total costs of \$99.1 million were recorded during 2009, costs of \$130.0 million were recorded in 2008 and costs of \$400.0 million were recorded in 2007 for this program. In addition, the manufacturing facilities in Naugatuck, Connecticut and Smiths Falls, Ontario have been closed and are being held for sale. The carrying value of these manufacturing facilities was \$10.4 million as of December 31, 2010. Actual proceeds from the sale of these facilities could differ from expected proceeds which could cause additional charges or credits in 2011 or subsequent years.

In an effort to improve the performance of our business in Brazil, in January 2008, Hershey do Brasil entered into a cooperative agreement with Pandurata Alimentos LTDA (now Pandurata Netherlands B.V.) (“Bauducco”), a leading manufacturer of baked goods in Brazil whose primary brand is Bauducco. Business realignment and impairment charges of \$4.9 million were recorded in 2008.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Charges (credits) associated with business realignment initiatives and impairment recorded during 2010, 2009 and 2008 were as follows:

<u>For the years ended December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Cost of sales</b>			
Next Century program	<b>\$13,644</b>	\$ —	\$ —
Global supply chain transformation program	—	10,136	77,767
Total cost of sales	<u>13,644</u>	<u>10,136</u>	<u>77,767</u>
<b>Selling, marketing and administrative</b>			
Next Century program	<b>1,493</b>	—	—
Global supply chain transformation program	—	6,120	8,102
Total selling, marketing and administrative	<u>1,493</u>	<u>6,120</u>	<u>8,102</u>
<b>Business realignment and impairment charges, net</b>			
Next Century program:			
Fixed asset impairment and plant closure expenses	<b>5,516</b>	—	—
Employee separation costs	<b>33,225</b>	—	—
2007 business realignment initiatives:			
Global supply chain transformation program:			
Net gain on sale of fixed assets	—	(3,418)	(4,882)
Plant closure expense	—	22,157	23,415
Employee separation costs	—	2,474	11,469
Pension settlement loss	—	60,431	12,501
Contract termination costs	—	1,231	1,637
Brazilian business realignment:			
Employee separation costs	—	—	1,581
Fixed asset impairment charges	—	—	754
Contract termination and other exit costs	—	—	2,587
2008 impairment of trademarks	—	—	45,739
Godrej Hershey Ltd. goodwill impairment	<b>44,692</b>	—	—
Total business realignment and impairment charges, net	<u>83,433</u>	<u>82,875</u>	<u>94,801</u>
<b>Total net charges associated with business realignment initiatives and impairment</b>	<u><b>\$98,570</b></u>	<u><b>\$99,131</b></u>	<u><b>\$180,670</b></u>

*Next Century Program*

The charge of \$13.6 million recorded in cost of sales during 2010 related primarily to accelerated depreciation of fixed assets over a reduced estimated remaining useful life associated with the Next Century program. A charge of \$1.5 million was recorded in selling, marketing and administrative expenses during 2010 for project administration. Fixed asset impairment charges of \$5.5 million were recorded during 2010. In determining the costs related to fixed asset impairments, fair value was estimated based on the expected sales proceeds. Employee separation costs of \$33.2 million during 2010 were related to expected voluntary and involuntary terminations at the two manufacturing facilities.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Godrej Hershey Ltd. Goodwill Impairment*

We recorded a non-cash goodwill impairment charge of \$44.7 million to reduce the carrying value of Godrej Hershey Ltd. to its fair value, including a reduction to reflect the share of the charge associated with the noncontrolling interests. There was no tax benefit associated with this charge. For more information, see *Note 1. Summary of Significant Accounting Policies* under Goodwill and Other Intangible Assets.

*Global Supply Chain Transformation Program*

The charge of \$10.1 million recorded in cost of sales during 2009 related to start-up costs and the accelerated depreciation of fixed assets over the estimated remaining useful life. The \$6.1 million recorded in selling, marketing and administrative expenses was associated with project administration. The \$3.4 million net gain on sale of fixed assets resulted from higher proceeds received from the sale of equipment. The \$22.2 million of plant closure expenses for 2009 pertained to the preparation of plants for sale and equipment removal costs. The global supply chain transformation program had identified six manufacturing facilities which would be closed. As of December 31, 2009, manufacturing facilities located in Dartmouth, Nova Scotia; Oakdale, California; and Montreal, Quebec had been closed and sold. The facilities located in Naugatuck, Connecticut; Reading, Pennsylvania; and Smiths Falls, Ontario had been closed and were being held for sale. The global supply chain transformation program employee separation costs were primarily related to involuntary terminations at the manufacturing facilities of Artisan Confections Company which have been closed. The higher pension settlement loss in 2009 compared to 2008 resulted from an increase in actuarial losses associated with the significant decline in the fair value of pension assets in 2008, along with the increased level of lump sum withdrawals from a defined benefit pension plan related to employee departures.

The 2008 charge of \$77.8 million recorded in cost of sales related primarily to the accelerated depreciation of fixed assets over a reduced estimated remaining useful life and start-up costs. The \$8.1 million recorded in selling, marketing and administrative expenses was associated with project administration. The \$4.9 million of gains on sale of fixed assets resulted from the receipt of proceeds in excess of the carrying value primarily from the sale of a warehousing and distribution facility. The \$23.4 million of plant closure expenses for 2008 resulted from the preparation of plants for sale and production line removal costs. Employee separation costs were related to involuntary terminations at the North American manufacturing facilities which were being closed.

*Brazilian Business Realignment*

The 2008 Brazilian business realignment charges were related to involuntary terminations and costs associated with office consolidation related to the cooperative agreement with Bauducco.

*2008 Impairment of Trademarks*

As a result of our annual impairment tests of intangible assets with useful lives determined to be indefinite, we recorded total impairment charges of \$45.7 million in December 2008. We determined that the carrying amounts of certain trademarks, primarily the *Mauna Loa* brand, exceeded their estimated fair value due to reduced expectations for future sales and cash flows compared with the valuations at the acquisition dates.

*Liabilities Associated with Business Realignment Initiatives*

As of December 31, 2010, the liability balance relating to the Next Century program was \$32.9 million primarily for estimated employee separation costs which were recorded in 2010 and will be paid principally in 2012 and 2013 as production transitions to the expanded West Hershey facility. During 2010, we made payments

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

against the liabilities recorded for the Next Century program of \$0.3 million related to project administration and employee separation costs. We made payments of \$7.8 million in 2010, \$28.5 million in 2009 and \$46.9 million in 2008 against the liabilities recorded for the global supply chain transformation program, principally related to employee separation and project administration costs.

**4. NONCONTROLLING INTERESTS IN SUBSIDIARIES**

In May 2007, we entered into an agreement with Godrej Beverages and Foods, Ltd. 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 the contributions in 2009 and 2010. 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 the cooperative agreement with 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 \$39.9 million as of December 31, 2009 to \$35.3 million as of December 31, 2010 reflected the noncontrolling interests' share of losses of these entities, including the noncontrolling interests share of the goodwill impairment charge recorded for Godrej Hershey Ltd. These decreases were partially offset by the noncontrolling interests' contributions in Godrej Hershey Ltd. and Hershey do Brasil, described above, as well as the impact of foreign currency translation adjustments. The share of losses pertaining to the noncontrolling interests in subsidiaries was \$8.2 million for the year ended December 31, 2010, \$4.1 million for the year ended December 31, 2009 and \$6.1 million for the year ended December 31, 2008. This was reflected in selling, marketing and administrative expenses.

**5. COMMITMENTS AND CONTINGENCIES**

We enter into certain obligations for the purchase of raw materials. These obligations are primarily in the form of forward contracts for the purchase of raw materials from third-party brokers and dealers. These contracts minimize the effect of future price fluctuations by fixing the price of part or all of these purchase obligations. Total obligations for each year consisted of fixed price contracts for the purchase of commodities and unpriced contracts that were valued using market prices as of December 31, 2010.

The cost of commodities associated with the unpriced contracts is variable as market prices change over future periods. We mitigate the variability of these costs to the extent that we have entered into commodities futures and options contracts to hedge our costs for those periods. Increases or decreases in market prices are offset by gains or losses on commodities futures contracts. Taking delivery of and making payments for the specific commodities for use in the manufacture of finished goods satisfies our obligations under the forward purchase contracts. For each of the three years in the period ended December 31, 2010, we satisfied these obligations by taking delivery of and making payment for the specific commodities.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

As of December 31, 2010, we had entered into purchase agreements with various suppliers. Subject to meeting our quality standards, the purchase obligations covered by these agreements were as follows as of December 31, 2010:

<u>Obligations</u> In millions of dollars	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Purchase obligations	\$1,257.1	\$565.3	\$201.7	\$5.6

We have commitments under various operating leases. Future minimum payments under non-cancelable operating leases with a remaining term in excess of one year were as follows as of December 31, 2010:

<u>Lease Commitments</u> In millions of dollars	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Thereafter</u>
Future minimum rental payments	\$14.9	\$12.8	\$7.6	\$6.0	\$5.5	\$ 8.8

We have a number of facilities that contain varying amounts of asbestos in certain locations within the facilities. Our asbestos management program is compliant with current applicable regulations. Current regulations require that we handle or dispose of asbestos in a special manner if such facilities undergo major renovations or are demolished. Plans associated with the closure of a manufacturing facility under the Next Century program may require the removal of asbestos. The estimated liability associated with the possible removal of asbestos from the facility is not material and is included in our estimates. With regard to other facilities, we believe we do not have sufficient information to estimate the fair value of any asset retirement obligations related to those facilities. We cannot specify the settlement date or range of potential settlement dates and, therefore, sufficient information is not available to apply an expected present value technique. We expect to maintain the facilities with repairs and maintenance activities that would not involve or require the removal of asbestos.

As of December 31, 2010, certain real estate associated with the closure of facilities under the global supply chain transformation program was being held for sale. We are not aware of any significant obligations related to the environmental remediation of these facilities which have not been reflected in our current estimates.

In connection with its pricing practices, the Company is the subject of an antitrust investigation by the Canadian Competition Bureau. In addition, the U.S. Department of Justice notified the Company that it opened an inquiry but has not requested any information or documents. The European Commission had requested information, but subsequently informed the Company that it had closed its file. We also are party to approximately 90 related civil antitrust suits in the United States and 14 in Canada. Certain of these claims contain class action allegations, instituted on behalf of direct purchasers of our products as well as indirect purchasers that purchase our products for use or for resale. These suits allege conspiracies in restraint of trade in connection with the pricing practices of the Company. Several other chocolate and 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. 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.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

We classify derivatives as assets or liabilities on the balance sheet. Accounting for the change in fair value of the derivative depends on:

- Whether the instrument qualifies for, and has been designated as, a hedging relationship; and
- The type of hedging relationship.

There are three types of hedging relationships:

- Cash flow hedge;
- Fair value hedge; and
- Hedge of foreign currency exposure of a net investment in a foreign operation.

As of December 31, 2010 and 2009, all of our derivative instruments were classified as cash flow hedges.

The amount of net gains on cash flow hedging derivatives, including foreign exchange forward contracts and options, interest rate swap agreements and commodities futures contracts and options, expected to be reclassified into earnings in the next 12 months was approximately \$20.7 million after tax as of December 31, 2010. This amount was primarily associated with commodities futures contracts.

**Objectives, Strategies and Accounting Policies Associated with Derivative Instruments**

We use certain derivative instruments, from time to time, to manage interest rate, foreign currency exchange rate and commodity market price risk exposures. We enter into interest rate swap agreements and foreign exchange forward contracts and options for periods consistent with their related underlying exposures. We enter into commodities futures and options contracts for varying periods. Our commodities futures and options contracts are effective as hedges of market price risks associated with anticipated raw material purchases, energy requirements and transportation costs.

We do not hold or issue derivative instruments for trading purposes and are not a party to any instruments with leverage or prepayment features. In entering into these contracts, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. We mitigate this risk by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. We do not expect any significant losses from counterparty defaults.

**Interest Rate Swaps**

In order to minimize financing costs and to manage interest rate exposure, from time to time, we enter into interest rate swap agreements. We included gains and losses on these interest rate swap agreements in other comprehensive income. We recognize the gains and losses on these interest rate swap agreements as an adjustment to interest expense in the same period as the hedged interest payments affect earnings. We classify cash flows from interest rate swap agreements as net cash provided from operating activities on the Consolidated Statements of Cash Flows. Our risk related to the swap agreements is limited to the cost of replacing the agreements at prevailing market rates.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Foreign Exchange Forward Contracts and Options**

We enter into foreign exchange forward contracts and options to hedge transactions primarily related to commitments and forecasted purchases of equipment, raw materials and finished goods denominated in foreign currencies. We may also hedge payment of forecasted intercompany transactions with our subsidiaries outside of the United States. These contracts reduce currency risk from exchange rate movements. We generally hedge foreign currency price risks for periods from 3 to 24 months. In entering into these contracts, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. We do not expect any significant losses from counterparty defaults.

Foreign exchange forward contracts and options are effective as hedges of identifiable foreign currency commitments. Since there is a direct relationship between the foreign currency derivatives and the foreign currency denomination of the transactions, the derivatives are highly effective in hedging cash flows related to transactions denominated in the corresponding foreign currencies. We designate our foreign exchange forward contracts and options as cash flow hedging derivatives.

These contracts meet the criteria for cash flow hedge accounting treatment. We classify the fair value of foreign exchange forward contracts as prepaid expenses and other current assets, other non-current assets, accrued liabilities or other long-term liabilities on the Consolidated Balance Sheets. We report the offset to the futures and options contracts in accumulated other comprehensive loss, net of income taxes. We record gains and losses on these contracts as a component of other comprehensive income and reclassify them into earnings in the same period during which the hedged transactions affect earnings. For hedges associated with the purchase of equipment, we designate the related cash flows as net cash flows (used by) provided from investing activities on the Consolidated Statements of Cash Flows. We classify cash flows from other foreign exchange forward contracts as net cash provided from operating activities.

As of December 31, 2010, the fair value of foreign exchange forward contracts with gains totaled \$9.5 million and the fair value of foreign exchange forward contracts with losses totaled \$7.5 million. Over the last three years the volume of activity for foreign exchange forward contracts to purchase foreign currencies ranged from a contract amount of \$0.8 million to \$93.2 million. Over the same period, the volume of activity for foreign exchange forward contracts to sell foreign currencies ranged from a contract amount of \$56.2 million to \$165.1 million.

**Commodities Futures and Options Contracts**

We enter into commodities futures and options contracts to reduce the effect of future price fluctuations associated with the purchase of raw materials, energy requirements and transportation services. We generally hedge commodity price risks for 3 to 24 month periods. The commodities futures and options contracts are highly effective in hedging price risks for our raw material requirements, energy requirements and transportation costs. Because our commodities futures and options contracts meet hedge criteria, we account for them as cash flow hedges. Accordingly, we include gains and losses on hedging in other comprehensive income. We recognize gains and losses ratably in cost of sales in the same period that we record the hedged raw material requirements in cost of sales.

We use exchange traded futures contracts to fix the price of unpriced physical forward purchase contracts. Physical forward purchase contracts meet the definition of "normal purchases and sales" and, therefore, are not accounted for as derivative instruments. On a daily basis, we receive or make cash transfers reflecting changes in the value of futures contracts (unrealized gains and losses). As mentioned above, such gains and losses are included as a component of other comprehensive income. The cash transfers offset higher or lower cash

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

requirements for payment of future invoice prices for raw materials, energy requirements and transportation costs. Futures held in excess of the amount required to fix the price of unpriced physical forward contracts are effective as hedges of anticipated purchases.

Over the last three years our total annual volume of futures and options traded in conjunction with commodities hedging strategies ranged from approximately 55,000 to 75,000 contracts. We use futures and options contracts in combination with forward purchasing of cocoa products, sugar, corn sweeteners, natural gas, fuel oil and certain dairy products, primarily to provide favorable pricing opportunities and flexibility in sourcing our raw material and energy requirements. Our commodity procurement practices are intended to reduce the risk of future price increases and provide visibility to future costs, but also may potentially limit our ability to benefit from possible price decreases.

**Hedge Effectiveness—Commodities**

We perform an assessment of hedge effectiveness for commodities futures and options contracts on a quarterly basis. Because of the rollover strategy used for commodities futures contracts, as required by futures market conditions, some ineffectiveness may result in hedging forecasted manufacturing requirements. This occurs as we switch futures contracts from nearby contract positions to contract positions that are required to fix the price of anticipated manufacturing requirements. Hedge ineffectiveness may also result from variability in basis differentials associated with the purchase of raw materials for manufacturing requirements. We record the ineffective portion of gains or losses on commodities futures and options contracts currently in cost of sales.

The prices of commodities futures contracts reflect delivery to the same locations where we take delivery of the physical commodities. Therefore, there is no ineffectiveness resulting from differences in location between the derivative and the hedged item.

**Financial Statement Location and Amounts Pertaining to Derivative Instruments**

The fair value of derivative instruments in the Consolidated Balance Sheet as of December 31, 2010 was as follows:

<u>Balance Sheet Caption</u> In thousands of dollars	<u>Interest Rate Swap Agreements</u>	<u>Foreign Exchange Forward Contracts and Options</u>	<u>Commodities Futures and Options Contracts</u>
Prepaid expense and other current assets	\$ —	\$ 6,748	\$ —
Other assets	\$ —	\$ 2,737	\$ —
Accrued liabilities	\$ 8,873	\$ 5,109	\$ 3,233
Other long-term liabilities	\$ —	\$ 2,348	\$ —



**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The fair value of derivative instruments in the Consolidated Balance Sheet as of December 31, 2009 was as follows:

<u>Balance Sheet Caption</u> In thousands of dollars	<u>Interest Rate Swap Agreements</u>	<u>Foreign Exchange Forward Contracts and Options</u>	<u>Commodities Futures and Options Contracts</u>
Prepaid expense and other current assets	\$ —	\$ 2,872	\$ 11,835
Other assets	\$ 9,171	\$ —	\$ —
Accrued liabilities	\$ —	\$ 7,708	\$ 3,228

The fair value of the interest rate swap agreements represents the difference in the present values of cash flows calculated at the contracted interest rates and at current market interest rates at the end of the period. We calculate the fair value of interest rate swap agreements quarterly based on the quoted market price for the same or similar financial instruments.

We define the fair value of foreign exchange forward contracts and options as the amount of the difference between the contracted and current market foreign currency exchange rates at the end of the period. We estimate the fair value of foreign exchange forward contracts and options on a quarterly basis by obtaining market quotes of spot and forward rates for contracts with similar terms, adjusted where necessary for maturity differences.

As of December 31, 2010, accrued liabilities associated with commodities futures and options contracts were related to cash transfers payable on commodities futures contracts reflecting the change in quoted market prices on the last trading day for the period. We make or receive cash transfers to or from commodity futures brokers on a daily basis reflecting changes in the value of futures contracts on the IntercontinentalExchange or various other exchanges. These changes in value represent unrealized gains and losses.

As of December 31, 2009, prepaid expense and other current assets were associated with the fair value of commodity options contracts. Accrued liabilities were related to cash transfers payable on commodities futures contracts reflecting the change in quoted market prices on the last trading day for the period.

The effect of derivative instruments on the Consolidated Statements of Income for the year ended December 31, 2010 was as follows:

<u>Cash Flow Hedging Derivatives</u> In thousands of dollars	<u>Interest Rate Swap Agreements</u>	<u>Foreign Exchange Forward Contracts and Options</u>	<u>Commodities Futures and Options Contracts</u>
Gains (losses) recognized in other comprehensive income ("OCI") (effective portion)	\$ (18,044)	\$ 15,840	\$ 5,464
Gains (losses) reclassified from accumulated OCI into income (effective portion) <sup>(a)</sup>	\$ —	\$ (5,866)	\$ 58,500
Gains recognized in income (ineffective portion) <sup>(b)</sup>	\$ —	\$ —	\$ 781

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The effect of derivative instruments on the Consolidated Statements of Income for the year ended December 31, 2009 was as follows:

<u>Cash Flow Hedging Derivatives</u> In thousands of dollars	<u>Interest Rate Swap Agreements</u>	<u>Foreign Exchange Forward Contracts and Options</u>	<u>Commodities Futures and Options Contracts</u>
Gains (losses) recognized in other comprehensive income (“OCI”) (effective portion)	\$ 9,171	\$ (3,737)	\$ 119,764
Gains (losses) reclassified from accumulated OCI into income (effective portion) <sup>(a)</sup>	\$ —	\$ 8,587	\$ (11,600)
Gains recognized in income (ineffective portion) <sup>(b)</sup>	\$ —	\$ —	\$ 169

(a) Gains (losses) reclassified from accumulated OCI into earnings were included in cost of sales for commodities futures and options contracts and for foreign exchange forward contracts and options designated as hedges of intercompany purchases of inventory. Other gains and losses for foreign exchange forward contracts and options were included in selling, marketing and administrative expenses.

(b) Gains (losses) recognized in earnings were included in cost of sales.

All gains (losses) recognized currently in earnings were related to the ineffective portion of the hedging relationship. We recognized no components of gains and losses on cash flow hedging derivatives in income due to excluding such components from the hedge effectiveness assessment.

## 7. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair value as of December 31, 2010 and December 31, 2009, because of the relatively short maturity of these instruments.

The carrying value of long-term debt, including the current portion, was \$1,803.2 million as of December 31, 2010, compared with a fair value of \$1,968.7 million based on quoted market prices for the same or similar debt issues. The carrying value of long-term debt, including the current portion, was \$1,518.0 million as of December 31, 2009 compared with a fair value of \$1,654.4 million.

### Interest Rate Swaps

In March 2009, the Company entered into forward starting interest rate swap agreements to hedge interest rate exposure related to the anticipated \$250 million of term financing expected to be executed during 2011 to repay \$250 million of 5.3% Notes maturing in September 2011. The weighted-average fixed rate on the forward starting swap agreements was 3.5%. The fair value of interest rate swap agreements was a net liability of \$8.9 million as of December 31, 2010 and a net asset of \$9.2 million as of December 31, 2009. The Company’s risk related to interest rate swap agreements is limited to the cost of replacing such agreements at prevailing market rates.

In December 2010, we terminated forward starting swap agreements which were entered into in August 2010 to hedge the anticipated execution of term financing. The swap agreements were terminated upon the issuance of the 4.125% Notes due December 1, 2020, resulting in cash receipts of \$13.5 million. The \$13.5 million gain on the swap agreements will be amortized as a reduction to interest expense over the term of the Notes.

For more information see *Note 6, Derivative Instruments and Hedging Activities*.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Foreign Exchange Forward Contracts**

For information on the objectives, strategies and accounting policies related to our use of foreign exchange forward contracts, see *Note 6, Derivative Instruments and Hedging Activities*.

The following table summarizes our foreign exchange activity:

<u>December 31,</u>	<u>2010</u>		<u>2009</u>	
<u>In millions of dollars</u>	<u>Contract Amount</u>	<u>Primary Currencies</u>	<u>Contract Amount</u>	<u>Primary Currencies</u>
Foreign exchange forward contracts to purchase foreign currencies	\$73.5	Euros Canadian dollars	\$2.7	Euros Swiss francs
Foreign exchange forward contracts to sell foreign currencies	\$150.3	Canadian dollars	\$106.3	Canadian dollars

The fair value of foreign exchange forward contracts is included in prepaid expenses and other current assets, other non-current assets, accrued liabilities or other long-term liabilities, as appropriate.

The combined fair value of our foreign exchange forward contracts included in prepaid expenses and other current assets, other non-current assets, accrued liabilities or other long-term liabilities on the Consolidated Balance Sheets was as follows:

<u>December 31,</u>	<u>2010</u>	<u>2009</u>
<u>In millions of dollars</u>		
Fair value of foreign exchange forward contracts, net—asset (liability)	\$2.0	\$(4.8)

**8. FAIR VALUE ACCOUNTING**

We follow a fair value measurement hierarchy to price certain assets or liabilities. The fair value is determined based on inputs or assumptions that market participants would use in pricing the asset or liability. These assumptions consist of (1) observable inputs—market data obtained from independent sources, or (2) unobservable inputs—market data determined using the Company's own assumptions about valuation.

We prioritize the inputs to valuation techniques, with the highest priority being given to Level 1 inputs and the lowest priority to Level 3 inputs, as defined below:

- Level 1 Inputs—quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs—quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices that are observable; and inputs that are derived from or corroborated by observable market data by correlation; and
- Level 3 Inputs—unobservable inputs used to the extent that observable inputs are not available. These reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

We use certain derivative instruments, from time to time, to manage interest rate, foreign currency exchange rate and commodity market price risk exposures, all of which are recorded at fair value based on quoted market prices or rates.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

A summary of our cash flow hedging derivative assets and liabilities measured at fair value on a recurring basis as of December 31, 2010, is as follows:

<u>Description</u> In thousands of dollars	<u>Fair Value as of December 31, 2010</u>	<u>Quoted Prices in Active Markets of Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets</b>				
Cash flow hedging derivatives	<u>\$ 9,485</u>	<u>\$ —</u>	<u>\$ 9,485</u>	<u>\$ —</u>
<b>Liabilities</b>				
Cash flow hedging derivatives	<u>\$ 19,563</u>	<u>\$ 3,233</u>	<u>\$ 16,330</u>	<u>\$ —</u>

As of December 31, 2010, cash flow hedging derivative Level 1 liabilities were related to cash transfers payable on commodities futures contracts reflecting the change in quoted market prices on the last trading day for the period. We make or receive cash transfers to or from commodity futures brokers on a daily basis reflecting changes in the value of futures contracts on the IntercontinentalExchange or various other exchanges. These changes in value represent unrealized gains and losses.

As of December 31, 2010, cash flow hedging derivative Level 2 assets were related to the fair value of foreign exchange forward contracts with gains. Cash flow hedging Level 2 liabilities were related to the fair value of interest rate swap agreements and foreign exchange forward contracts with losses. We define the fair value of foreign exchange forward contracts as the amount of the difference between the contracted and current market foreign currency exchange rates at the end of the period. We estimate the fair value of foreign exchange forward contracts on a quarterly basis by obtaining market quotes of spot and forward rates for contracts with similar terms, adjusted where necessary for maturity differences.

A summary of our cash flow hedging derivative assets and liabilities measured at fair value on a recurring basis as of December 31, 2009, is as follows:

<u>Description</u> In thousands of dollars	<u>Fair Value as of December 31, 2009</u>	<u>Quoted Prices in Active Markets of Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets</b>				
Cash flow hedging derivatives	<u>\$ 23,878</u>	<u>\$ 11,835</u>	<u>\$ 12,043</u>	<u>\$ —</u>
<b>Liabilities</b>				
Cash flow hedging derivatives	<u>\$ 10,936</u>	<u>\$ 3,228</u>	<u>\$ 7,708</u>	<u>\$ —</u>

As of December 31, 2009, cash flow hedging derivative Level 1 assets were associated with the fair value of commodity options contracts. As of December 31, 2009, cash flow hedging derivative Level 1 liabilities were related to cash transfers payable on commodities futures contracts reflecting the change in quoted market prices on the last trading day for the period.

As of December 31, 2009, cash flow hedging derivative Level 2 assets were related to the fair value of interest rate swap agreements and foreign exchange forward contracts with gains. Cash flow hedging Level 2 liabilities were related to the fair value of foreign exchange forward contracts with losses.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**9. COMPREHENSIVE INCOME**

A summary of the components of comprehensive income is as follows:

<u>For the year ended December 31, 2010</u> In thousands of dollars	<u>Pre-Tax Amount</u>	<u>Tax (Expense) Benefit</u>	<u>After-Tax Amount</u>
Net income			<u>\$ 509,799</u>
Other comprehensive income (loss):			
Foreign currency translation adjustments	\$ 14,123	\$ —	14,123
Pension and post-retirement benefit plans	10,529	(5,399)	5,130
Cash flow hedges:			
Gains on cash flow hedging derivatives	3,260	(2,259)	1,001
Reclassification adjustments	<u>(52,634)</u>	<u>20,157</u>	<u>(32,477)</u>
Total other comprehensive loss	<u>\$ (24,722)</u>	<u>\$ 12,499</u>	<u>(12,223)</u>
Comprehensive income			<u>\$ 497,576</u>

<u>For the year ended December 31, 2009</u> In thousands of dollars	<u>Pre-Tax Amount</u>	<u>Tax (Expense) Benefit</u>	<u>After-Tax Amount</u>
Net income			<u>\$ 435,994</u>
Other comprehensive income (loss):			
Foreign currency translation adjustments	\$ 38,302	\$ —	38,302
Pension and post-retirement benefit plans	68,217	(29,574)	38,643
Cash flow hedges:			
Gains on cash flow hedging derivatives	125,198	(46,941)	78,257
Reclassification adjustments	3,014	(1,152)	1,862
Total other comprehensive income	<u>\$ 234,731</u>	<u>\$ (77,667)</u>	<u>157,064</u>
Comprehensive income			<u>\$ 593,058</u>

<u>For the year ended December 31, 2008</u> In thousands of dollars	<u>Pre-Tax Amount</u>	<u>Tax (Expense) Benefit</u>	<u>After-Tax Amount</u>
Net income			<u>\$ 311,405</u>
Other comprehensive income (loss):			
Foreign currency translation adjustments	\$ (74,563)	\$ —	(74,563)
Pension and post-retirement benefit plans	(385,482)	150,694	(234,788)
Cash flow hedges:			
Gains on cash flow hedging derivatives	17,886	(6,390)	11,496
Reclassification adjustments	<u>(53,297)</u>	<u>19,223</u>	<u>(34,074)</u>
Total other comprehensive loss	<u>\$ (495,456)</u>	<u>\$ 163,527</u>	<u>(331,929)</u>
Comprehensive loss			<u>\$ (20,524)</u>

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Comprehensive income is included on the Consolidated Statements of Stockholders' Equity. The components of accumulated other comprehensive loss, as shown on the Consolidated Balance Sheets, are as follows:

<u>December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>
Foreign currency translation adjustments	\$ 22,672	\$ 8,549
Pension and post-retirement benefit plans, net of tax	(270,580)	(275,710)
Cash flow hedges, net of tax	32,841	64,317
Total accumulated other comprehensive loss	<u>\$ (215,067)</u>	<u>\$ (202,844)</u>

**10. INTEREST EXPENSE**

Net interest expense consisted of the following:

<u>For the years ended December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
Long-term debt and lease obligations	\$91,144	\$89,575	\$88,726
Short-term debt	8,676	4,401	16,731
Capitalized interest	(2,116)	(2,640)	(5,779)
Interest expense, gross	97,704	91,336	99,678
Interest income	(1,270)	(877)	(1,802)
Interest expense, net	<u>\$96,434</u>	<u>\$90,459</u>	<u>\$97,876</u>

In December 2010, we paid \$63.4 million to repurchase \$57.5 million of our 6.95% Notes due in 2012 as part of a cash tender offer. As a result of the repurchase, we recorded interest expense on long-term debt of \$5.9 million, which represented the premium paid for the tender offer.

**11. SHORT-TERM DEBT**

As a source of short-term financing, we utilize commercial paper or bank loans with an original maturity of 3 months or less. Our five-year unsecured revolving credit agreement expires in December 2012. The credit limit is \$1.1 billion with an option to borrow an additional \$400 million with the concurrence of the lenders.

The unsecured committed revolving credit agreement contains a financial covenant whereby the ratio of (a) pre-tax income from operations from the most recent four fiscal quarters to (b) consolidated interest expense for the most recent four fiscal quarters may not be less than 2.0 to 1 at the end of each fiscal quarter. The credit agreement contains customary representations and warranties and events of default. Payment of outstanding advances may be accelerated, at the option of the lenders, should we default in our obligation under the credit agreement. As of December 31, 2010, we complied with all customary affirmative and negative covenants and the financial covenant pertaining to our credit agreement. There were no significant compensating balance agreements that legally restricted these funds.

In addition to the revolving credit facility, we maintain lines of credit with domestic and international commercial banks. Our credit limit in various currencies was \$77.2 million in 2010 and \$68.9 million in 2009.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

These lines permit us to borrow at the banks' prime commercial interest rates, or lower. We had short-term foreign bank loans against these lines of credit for \$24.1 million in 2010 and 2009.

The maximum amount of our short-term borrowings during 2010 was \$42.2 million. The weighted-average interest rate on short-term borrowings outstanding was 7.8% as of December 31, 2010 and 8.1% as of December 31, 2009. The lower rate as of December 31, 2010, was primarily associated with short-term borrowings of our international businesses, particularly in India.

We pay commitment fees to maintain our lines of credit. The average fee during 2010 was less than .1% per annum of the commitment.

We maintain a consolidated cash management system that includes overdraft positions in certain accounts at several banks. We have the contractual right of offset for the accounts with overdrafts. These offsets reduced cash and cash equivalents by \$2.2 million as of December 31, 2010 and \$2.1 million as of December 31, 2009.

**12. LONG-TERM DEBT**

Long-term debt consisted of the following:

<u>December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>
5.30% Notes due 2011	\$ 250,000	\$ 250,000
6.95% Notes due 2012	92,533	150,000
5.00% Notes due 2013	250,000	250,000
4.85% Notes due 2015	250,000	250,000
5.45% Notes due 2016	250,000	250,000
4.125% Notes due 2020	350,000	—
8.8% Debentures due 2021	100,000	100,000
7.2% Debentures due 2027	250,000	250,000
Other obligations, net of unamortized debt discount	10,684	17,977
Total long-term debt	<u>1,803,217</u>	<u>1,517,977</u>
Less—current portion	<u>261,392</u>	<u>15,247</u>
Long-term portion	<u>\$ 1,541,825</u>	<u>\$ 1,502,730</u>

In December 2010, we paid \$63.4 million to repurchase \$57.5 million of our 6.95% Notes due in 2012 as part of a cash tender offer. As a result of the repurchase, we recorded interest expense of \$5.9 million, which represented the premium paid in the tender offer. We used a portion of the proceeds from the \$350 million of 4.125% Notes issued in December 2010 to fund the repurchase.

Aggregate annual maturities during the next five years are as follows:

- 2011—\$261.4 million
- 2012—\$93.7 million
- 2013—\$250.1 million
- 2014—\$0.1 million
- 2015—\$250.1 million

Our debt is principally unsecured and of equal priority. None of our debt is convertible into our Common Stock.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**13. INCOME TAXES**

Our income (loss) before income taxes was as follows:

<u>For the years ended December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
Domestic	<b>\$839,012</b>	\$670,753	\$568,282
Foreign	<b>(30,148)</b>	378	(76,260)
Income before income taxes	<b><u>\$808,864</u></b>	<u>\$671,131</u>	<u>\$492,022</u>

The 2010 and 2008 foreign losses before income taxes were due primarily to the business realignment and impairment charges recorded during each year.

Our provision for income taxes was as follows:

<u>For the years ended December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current:			
Federal	<b>\$283,449</b>	\$235,282	\$181,611
State	<b>28,423</b>	42,206	13,839
Foreign	<b>5,847</b>	(1,773)	2,292
Current provision for income taxes	<b><u>317,719</u></b>	<u>275,715</u>	<u>197,742</u>
Deferred:			
Federal	<b>(19,590)</b>	(37,298)	(11,855)
State	<b>(2,056)</b>	(2,682)	1,843
Foreign	<b>2,992</b>	(598)	(7,113)
Deferred income tax benefit	<b><u>(18,654)</u></b>	<u>(40,578)</u>	<u>(17,125)</u>
Total provision for income taxes	<b><u>\$299,065</u></b>	<u>\$235,137</u>	<u>\$180,617</u>

The income tax benefits associated with the exercise of non-qualified stock options reduced accrued income taxes on the Consolidated Balance Sheets by \$1.4 million as of December 31, 2010 and by \$4.5 million as of December 31, 2009. We credited additional paid-in capital to reflect these income tax benefits. The deferred income tax benefit in 2010 primarily reflected the tax effect of charges for the Next Century program and the deferred income tax benefit in 2009 and 2008 primarily reflected the tax effect of the charges for the global supply chain transformation program recorded during the year.



**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Deferred taxes reflect temporary differences between the tax basis and financial statement carrying value of assets and liabilities. The tax effects of the significant temporary differences that comprised the deferred tax assets and liabilities were as follows:

<u>December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>
<b>Deferred tax assets:</b>		
Post-retirement benefit obligations	\$ 115,068	\$ 122,815
Accrued expenses and other reserves	120,258	108,181
Stock-based compensation	72,498	70,224
Accrued trade promotion reserves	6,902	5,282
Net operating loss carryforwards	54,649	46,296
Other	5,598	9,075
Gross deferred tax assets	374,973	361,873
Valuation allowance	(64,799)	(54,935)
Total deferred tax assets	<u>310,174</u>	<u>306,938</u>
<b>Deferred tax liabilities:</b>		
Property, plant and equipment, net	145,378	155,142
Derivative instruments	12,925	37,014
Pension	4,906	13,927
Acquired intangibles	35,631	34,188
Inventories	25,746	16,825
Other	8,441	5,621
Total deferred tax liabilities	<u>233,027</u>	<u>262,717</u>
Net deferred tax assets	<u>\$ (77,147)</u>	<u>\$ (44,221)</u>
Included in:		
Current deferred tax assets, net	\$ (55,760)	\$ (39,868)
Non-current deferred tax assets, net	(21,387)	(4,353)
Net deferred tax assets	<u>\$ (77,147)</u>	<u>\$ (44,221)</u>

We believe that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets. The valuation allowances as of December 31, 2010 and 2009 were primarily related to tax loss carryforwards from operations in various foreign tax jurisdictions. Additional information on income tax benefits and expenses related to components of accumulated other comprehensive income (loss) is provided in *Note 9, Comprehensive Income*.

The following table reconciles the Federal statutory income tax rate with our effective income tax rate:

<u>For the years ended December 31,</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	2.8	3.0	2.2
Qualified production income deduction	(2.4)	(1.7)	(1.7)
Business realignment and impairment charges	1.8	(.5)	.7
International operations	.4	(.1)	1.3
Other, net	(.6)	(.7)	(.8)
Effective income tax rate	<u>37.0%</u>	<u>35.0%</u>	<u>36.7%</u>

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The effective income tax rate for 2010 was higher by 1.8 percentage points, the effective income tax rate for 2009 was lower by 0.5 percentage points, and the effective income tax rate for 2008 was higher by 0.7 percentage points resulting from the impact of tax rates associated with business realignment and impairment charges. The effect of international operations varied based on the taxable income (loss) of our entities outside of the United States.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

<u>December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$63,005	\$58,000
Additions for tax positions taken during prior years	1,980	13,399
Reductions for tax positions taken during prior years	(2,053)	(8,246)
Additions for tax positions taken during the current year	5,165	11,781
Settlements	(2,975)	(4,689)
Expiration of statutes of limitations	(7,118)	(7,240)
Balance at end of year	<u>\$58,004</u>	<u>\$63,005</u>

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$39.1 million as of December 31, 2010 and \$41.5 million as of December 31, 2009.

We report accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized expense of \$2.3 million in 2010, a benefit of \$2.9 million in 2009 and expense of \$4.7 million in 2008 for interest and penalties. Accrued interest and penalties were \$17.8 million as of December 31, 2010, and \$21.1 million as of December 31, 2009.

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. A number of years may elapse before an uncertain tax position, for which we have unrecognized tax benefits, is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our unrecognized tax benefits reflect the most likely outcome. We adjust these unrecognized tax benefits, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position could require the use of cash. Favorable resolution would be recognized as a reduction to our effective income tax rate in the period of resolution.

The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions include the United States (federal and state), Canada and Mexico. During the second quarter of 2009, the U.S. Internal Revenue Service ("IRS") completed its audit of our U.S. income tax returns for 2005 and 2006 resulting in the resolution of tax contingencies associated with the 2004, 2005 and 2006 tax years. During the fourth quarter of 2009, the IRS commenced its audit of our U.S. income tax returns for 2007 and 2008 and we expect the audit to conclude in 2011. Tax examinations by various state taxing authorities could generally be conducted for years beginning in 2006. We are no longer subject to Canadian federal income tax examinations by the Canada Revenue Agency ("CRA") for years before 1999, and we are no longer subject to Mexican federal income tax examinations by Servicio de Administracion Tributaria ("SAT") for years before 2004. During the third quarter of 2010, the CRA commenced its audit of our Canadian income tax returns for 2006 through 2009. U.S., Canadian and Mexican federal audit issues typically involve the timing of deductions and transfer pricing adjustments. We work with the IRS, the CRA and the SAT to resolve proposed audit adjustments and to minimize the amount of adjustments. We do not anticipate that any potential tax adjustments will have a significant impact on our financial position or results of operations.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

We reasonably expect reductions in the liability for unrecognized tax benefits of approximately \$17.6 million within the next 12 months because of the expiration of statutes of limitations and settlements of tax audits.

**14. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS**

We sponsor a number of defined benefit pension plans. Our policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 (“ERISA”) and federal income tax laws. We fund non-domestic pension liabilities in accordance with laws and regulations applicable to those plans.

We have two post-retirement benefit plans: health care and life insurance. The health care plan is contributory, with participants’ contributions adjusted annually. The life insurance plan is non-contributory.

**Obligations and Funded Status**

A summary of the changes in benefit obligations and plan assets is as follows:

December 31, In thousands of dollars	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
<b>Change in benefit obligation</b>				
Projected benefits obligation at beginning of year	\$ 957,538	\$ 963,597	\$ 324,613	\$ 315,400
Service cost	28,287	25,877	1,385	1,529
Interest cost	53,500	58,435	16,254	18,704
Actuarial loss (gain)	71,171	106,489	(15,055)	11,012
Settlement	(247)	(155,625)	—	—
Medicare drug subsidy	—	—	671	(629)
Currency translation and other	3,512	10,712	753	1,829
Benefits paid	(63,995)	(51,947)	(22,321)	(23,232)
Projected benefits obligation at end of year	<u>1,049,766</u>	<u>957,538</u>	<u>306,300</u>	<u>324,613</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	942,445	922,807	—	—
Actual return on plan assets	112,824	161,613	—	—
Employer contribution	6,073	54,457	21,650	23,861
Settlement	(247)	(155,625)	—	—
Medicare drug subsidy	—	—	671	(629)
Currency translation and other	3,218	11,140	—	—
Benefits paid	(63,995)	(51,947)	(22,321)	(23,232)
Fair value of plan assets at end of year	<u>1,000,318</u>	<u>942,445</u>	<u>—</u>	<u>—</u>
<b>Funded status at end of year</b>	<u>\$ (49,448)</u>	<u>\$ (15,093)</u>	<u>\$ (306,300)</u>	<u>\$ (324,613)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$1.0 billion as of December 31, 2010 and \$927.0 million as of December 31, 2009.

We made total contributions to the pension plans of \$6.1 million during 2010. In 2009, we made total contributions of \$54.5 million to the pension plans. For 2011, there will be no significant minimum funding requirements for our pension plans.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Amounts recognized in the Consolidated Balance Sheets consisted of the following:

<u>December 31,</u> In thousands of dollars	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
Other assets	\$ 25,886	\$ 41,350	\$ —	\$ —
Accrued liabilities	(14,050)	(5,720)	(28,337)	(31,340)
Other long-term liabilities	(61,284)	(50,723)	(277,963)	(293,273)
Total	\$ (49,448)	\$ (15,093)	\$ (306,300)	\$ (324,613)

Amounts recognized in accumulated other comprehensive loss, net of tax, consisted of the following:

<u>December 31,</u> In thousands of dollars	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
Actuarial net (loss) gain	\$ (280,936)	\$ (276,679)	\$ 5,118	\$ (3,780)
Net prior service credit	4,265	3,607	973	1,142
Total	\$ (276,671)	\$ (273,072)	\$ 6,091	\$ (2,638)

Plans with accumulated benefit obligations in excess of plan assets were as follows:

<u>December 31,</u> In thousands of dollars	2010	2009
Projected benefit obligation	\$81,867	\$69,482
Accumulated benefit obligation	69,591	59,246
Fair value of plan assets	15,427	15,354

**Components of Net Periodic Benefit Cost (Income) and Other Amounts Recognized in Other Comprehensive Income**

Net periodic benefit cost (income) for our pension and other post-retirement plans consisted of the following:

<u>For the years ended December 31,</u> In thousands of dollars	Pension Benefits			Other Benefits		
	2010	2009	2008	2010	2009	2008
Service cost	\$ 28,287	\$ 25,877	\$ 29,601	\$ 1,385	\$ 1,529	\$ 1,752
Interest cost	53,500	58,435	59,409	16,254	18,704	20,299
Expected return on plan assets	(76,121)	(70,569)	(107,518)	—	—	—
Amortization of prior service cost (credit)	1,142	1,204	1,285	(278)	(474)	(458)
Amortization of net loss (gain)	28,522	33,603	(520)	(135)	(155)	(3)
Administrative expenses	412	321	383	261	281	288
Net periodic benefit cost (income)	35,742	48,871	(17,360)	17,487	19,885	21,878
Special termination benefits	—	—	173	—	—	—
Settlement loss	16	60,496	15,297	—	—	—
Total amount reflected in earnings	\$ 35,758	\$ 109,367	\$ (1,890)	\$ 17,487	\$ 19,885	\$ 21,878

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The special termination benefits charges and settlement losses recorded in 2009 and 2008 were primarily related to the global supply chain transformation program. We discuss the global supply chain transformation program in *Note 3, Business Realignment and Impairment Charges*.

Amounts recognized in other comprehensive loss (income) and net periodic benefit cost (income) before tax for our pension and other post-retirement plans consisted of the following:

<u>For the years ended December 31,</u> In thousands of dollars	Pension Benefits			Other Benefits		
	2010	2009	2008	2010	2009	2008
Actuarial net loss (gain)	\$ 5,308	\$ (78,654)	\$ 428,276	\$ (15,044)	\$ 11,167	\$ (42,311)
Prior service (credit) cost	(1,086)	(1,204)	(941)	293	474	458
Total recognized in other comprehensive loss (income)	<u>\$ 4,222</u>	<u>\$ (79,858)</u>	<u>\$ 427,335</u>	<u>\$ (14,751)</u>	<u>\$ 11,641</u>	<u>\$ (41,853)</u>
Total recognized in net periodic benefit cost (income) and other comprehensive loss (income)	<u>\$ 39,964</u>	<u>\$ (30,987)</u>	<u>\$ 409,975</u>	<u>\$ 2,736</u>	<u>\$ 31,526</u>	<u>\$ (19,975)</u>

The estimated amounts for the defined benefit pension plans and the post-retirement benefit plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost (income) over the next fiscal year are as follows (in thousands):

	Pension Plans	Post-Retirement Benefit Plans
Amortization of net actuarial loss (gain)	\$ 29,052	\$ (23)
Amortization of prior service cost (credit)	<u>\$ 1,006</u>	<u>\$ (276)</u>

**Assumptions**

Certain weighted-average assumptions used in computing the benefit obligations as of December 31, 2010 were as follows:

	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
Discount rate	5.2%	5.7%	5.2%	5.7%
Rate of increase in compensation levels	4.9%	4.8%	N/A	N/A

For measurement purposes as of December 31, 2010, we assumed a 10.0% annual rate of increase in the per capita cost of covered health care benefits for 2011, grading down to 5.0% by 2018.

For measurement purposes as of December 31, 2009, we assumed a 9.0% annual rate of increase in the per capita cost of covered health care benefits for 2010, grading down to 5.0% by 2018.

Certain weighted-average assumptions used in computing net periodic benefit cost (income) are as follows:

<u>For the years ended December 31,</u>	Pension Benefits			Other Benefits		
	2010	2009	2008	2010	2009	2008
Discount rate	5.7%	6.4%	6.3%	5.7%	6.4%	6.3%
Expected long-term return on plan assets	8.5%	8.5%	8.5%	N/A	N/A	N/A
Rate of compensation increase	4.8%	4.8%	4.7%	N/A	N/A	N/A

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

We based the asset return assumption of 8.5% for 2010, 2009 and 2008 on current and expected asset allocations, as well as historical and expected returns on the plan asset categories. The historical geometric average return over the 23 years prior to December 31, 2010, was approximately 8.5%. During 2011, we will be reducing the expected return on plan assets assumption to 8.0%.

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

<u>Impact of assumed health care cost trend rates</u> In thousands of dollars	<u>One- Percentage Point Increase</u>	<u>One- Percentage Point (Decrease)</u>
Effect on total service and interest cost components	\$ 299	\$ (269)
Effect on post-retirement benefit obligation	5,747	(5,167)

**Plan Assets**

We broadly diversify our pension plan assets across domestic and international common stock and fixed income asset classes. Our asset investment policies specify ranges of asset allocation percentages for each asset class. The ranges for the domestic pension plans were as follows:

<u>Asset Class</u>	<u>Target Allocation 2010</u>
Equity securities	58% – 85%
Debt securities	15% – 42%
Cash and certain other investments	0% – 5%

As of December 31, 2010, actual allocations were within the specified ranges. We expect the level of volatility in pension plan asset returns to be in line with the overall volatility of the markets within each asset class.

The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair value as of December 31, 2010:

<u>In thousands of dollars</u>	<u>Quoted prices in active markets of identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant other unobservable inputs (Level 3)</u>	<u>Total assets measured at fair value as of December 31, 2010</u>
Cash and cash equivalents	\$ 131	\$ 9,885	\$ —	\$ 10,016
Equity securities:				
U.S. all-cap <sup>(a)</sup>	19,928	132,633	—	152,561
U.S. large-cap <sup>(b)</sup>	131,494	329	—	131,823
U.S. small/mid-cap	20,325	762	—	21,087
International all-cap <sup>(c)</sup>	154,191	3,368	—	157,559
Global all-cap <sup>(d)</sup>	210,128	11,554	—	221,682
Domestic real estate	19,568	1,123	—	20,691
Fixed income securities:				
U.S. government/agency	52,199	31,743	—	83,942
Corporate bonds <sup>(e)</sup>	43,084	36,679	—	79,763
Collateralized obligations <sup>(f)</sup>	32,594	31,096	—	63,690
International government/corporate bonds <sup>(g)</sup>	25,775	31,729	—	57,504
<b>Total Investments</b>	<b>\$ 709,417</b>	<b>\$ 290,901</b>	<b>\$ —</b>	<b>\$ 1,000,318</b>

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair value as of December 31, 2009:

In thousands of dollars	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Total assets measured at fair value as of December 31, 2009
Cash and cash equivalents	\$ 15,591	\$ 11,769	\$ —	\$ 27,360
Equity securities:				
U.S. all-cap <sup>(a)</sup>	77,739	141,741	—	219,480
U.S. large-cap <sup>(b)</sup>	75,226	112	—	75,338
U.S. small/mid-cap	16,582	483	—	17,065
International all-cap <sup>(c)</sup>	125,718	—	—	125,718
Global all-cap <sup>(d)</sup>	164,695	—	—	164,695
Domestic real estate	15,650	227	—	15,877
Fixed income securities:				
U.S. government/agency	58,910	31,704	—	90,614
Corporate bonds <sup>(e)</sup>	58,655	10,937	—	69,592
Collateralized obligations <sup>(f)</sup>	51,264	11,220	—	62,484
International government/corporate bonds <sup>(g)</sup>	34,082	40,140	—	74,222
<b>Total Investments</b>	<b>\$ 694,112</b>	<b>\$ 248,333</b>	<b>\$ —</b>	<b>\$ 942,445</b>

(a) This category comprises equity funds that track the Russell 3000 index.

(b) This category comprises equity funds that track the S&P 500 and/or Russell 1000 indices.

(c) This category comprises equity funds that track the MSCI World Ex-US index.

(d) This category comprises equity funds that track the MSCI World index.

(e) This category comprises fixed income funds primarily invested in investment grade bonds.

(f) This category comprises fixed income funds primarily invested in high quality mortgage-backed securities and other asset-backed obligations.

(g) This category comprises fixed income funds invested in Canadian and other international bonds.

The fair value of the Level 1 assets was based on quoted market prices in active markets for the identical assets. The fair value of the Level 2 assets was provided by asset management entities and was calculated by aggregating market prices for all underlying securities.

Investment objectives for our domestic plan assets are:

- To optimize the long-term return on plan assets at an acceptable level of risk;
- To maintain a broad diversification across asset classes;
- To maintain careful control of the risk level within each asset class; and
- To focus on a long-term return objective.

We believe that there are no significant concentrations of risk within our plan assets as of December 31, 2010. We comply with ERISA rules and regulations and we prohibit investments and investment strategies not allowed by ERISA. We do not permit direct purchases of our Company's securities or the use of derivatives for the purpose of speculation. We invest the assets of non-domestic plans in compliance with laws and regulations applicable to those plans.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Cash Flows**

Information about the expected cash flows for our pension and other post-retirement benefit plans is as follows:

In thousands of dollars	Expected Benefit Payments					
	2011	2012	2013	2014	2015	2016-2020
Pension Benefits	\$ 104,052	\$ 56,544	\$ 57,203	\$ 61,591	\$ 71,544	\$ 441,919
Other Benefits	28,303	27,735	27,310	26,782	25,928	109,480

**15. SAVINGS PLANS**

The Company sponsors several defined contribution plans to provide retirement benefits to employees. Contributions to The Hershey Company 401(k) Plan and similar plans for non-domestic employees are based on a portion of eligible pay up to a defined maximum. All matching contributions were made in cash. Beginning in 2008, the defined maximum was increased for certain domestic union hourly employees. Expense associated with the defined contribution plans was \$27.6 million in 2010, \$24.0 million in 2009 and \$22.1 million in 2008.

**16. CAPITAL STOCK AND NET INCOME PER SHARE**

We had 1,055,000,000 authorized shares of capital stock as of December 31, 2010. Of this total, 900,000,000 shares were designated as Common Stock, 150,000,000 shares as Class B Common Stock ("Class B Stock") and 5,000,000 shares as Preferred Stock. Each class has a par value of one dollar per share. As of December 31, 2010, a combined total of 359,901,744 shares of both classes of common stock had been issued of which 227,030,232 shares were outstanding. No shares of the Preferred Stock were issued or outstanding during the 3 year period ended December 31, 2010.

Holders of the Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors. The holders of Common Stock have 1 vote per share and the holders of Class B Stock have 10 votes per share. However, the Common Stock holders, voting separately as a class, are entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock holders are entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 2010, 2,489 shares of Class B Stock were converted into Common Stock. During 2009, 2,000 shares were converted and during 2008, 95,419 shares were converted.

Changes in outstanding Common Stock for the past 3 years were as follows:

For the years ended December 31,	2010	2009	2008
Shares issued	359,901,744	359,901,744	359,901,744
Treasury shares at beginning of year	(131,903,468)	(132,866,673)	(132,851,893)
Stock repurchases:			
Stock options and benefits	(3,932,373)	(252,006)	(1,609,612)
Stock issuances:			
Stock options and benefits	2,964,329	1,215,211	1,594,832
Treasury shares at end of year	(132,871,512)	(131,903,468)	(132,866,673)
Net shares outstanding at end of year	227,030,232	227,998,276	227,035,071



**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Basic and Diluted Earnings Per Share were computed based on the weighted-average number of shares of the Common Stock and the Class B Stock outstanding as follows:

<u>For the years ended December 31,</u> In thousands except per share amounts	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net income	<u>\$ 509,799</u>	<u>\$ 435,994</u>	<u>\$ 311,405</u>
Weighted-average shares—Basic			
Common Stock	167,032	167,136	166,709
Class B Stock	<u>60,708</u>	<u>60,709</u>	<u>60,777</u>
Total weighted-average shares—Basic	<u>227,740</u>	<u>227,845</u>	<u>227,486</u>
Effect of dilutive securities:			
Employee stock options	1,852	781	884
Performance and restricted stock units	<u>721</u>	<u>369</u>	<u>327</u>
Weighted-average shares—Diluted	<u>230,313</u>	<u>228,995</u>	<u>228,697</u>
Earnings Per Share—Basic			
Common Stock	<u>\$ 2.29</u>	<u>\$ 1.97</u>	<u>\$ 1.41</u>
Class B Stock	<u>\$ 2.08</u>	<u>\$ 1.77</u>	<u>\$ 1.27</u>
Earnings Per Share—Diluted			
Common Stock	<u>\$ 2.21</u>	<u>\$ 1.90</u>	<u>\$ 1.36</u>
Class B Stock	<u>\$ 2.07</u>	<u>\$ 1.77</u>	<u>\$ 1.27</u>

For the year ended December 31, 2010, 8.7 million stock options were not included in the diluted earnings per share calculation because the exercise price was higher than the average market price of the Common Stock for the year. Therefore, the effect would have been antidilutive. In 2009, 17.1 million stock options were not included, and in 2008, 12.7 million stock options were not included in the diluted earnings per share calculation because the effect would have been antidilutive.

**Milton Hershey School Trust**

Hershey Trust Company, as Trustee for the benefit of Milton Hershey School, as institutional fiduciary for estates and trusts unrelated to Milton Hershey School, and as direct owner of investment shares, held 13,187,786 shares of our Common Stock as of December 31, 2010. As Trustee for the benefit of Milton Hershey School, Hershey Trust Company held 60,612,012 shares of the Class B Stock as of December 31, 2010, and was entitled to cast approximately 80% of the total votes of both classes of our common stock. The Milton Hershey School Trust must approve the issuance of shares of Common Stock or any other action that would result in the Milton Hershey School Trust not continuing to have voting control of our Company.

**Stockholder Protection Rights Agreement**

In December 2000, our Board of Directors unanimously adopted a Stockholder Protection Rights Agreement and declared a dividend of 1 right (“Right”) for each outstanding share of Common Stock and Class B Stock payable to stockholders of record at the close of business on December 26, 2000. The Rights at no time had voting power or received dividends. The issuance of the Rights had no dilutive effect, did not affect reported earnings per share and was not taxable. The Rights did not change the manner in which our Common Stock was traded. The Rights expired on December 15, 2010.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**17. STOCK COMPENSATION PLANS**

At our annual meeting of stockholders, held April 17, 2007, stockholders approved The Hershey Company Equity and Incentive Compensation Plan (“EICP”). The EICP is an amendment and restatement of our former Key Employee Incentive Plan, a share-based employee incentive compensation plan, and is also a continuation of our Broad Based Stock Option Plan, Broad Based Annual Incentive Plan and Directors’ Compensation Plan. Following its adoption on April 17, 2007, the EICP became the single plan under which grants using shares for compensation and incentive purposes will be made.

The EICP provides for grants of one or more of the following stock-based compensation awards to employees, non-employee directors and certain service providers upon whom the successful conduct of our business is dependent:

- Non-qualified stock options (“stock options”);
- Performance stock units and performance stock;
- Stock appreciation rights;
- Restricted stock units and restricted stock; and
- Other stock-based awards.

The EICP also provides for the deferral of stock-based compensation awards by participants if approved by the Compensation and Executive Organization Committee of our Board and if in accordance with an applicable deferred compensation plan of the Company. Currently, the Compensation and Executive Organization Committee has authorized the deferral of performance stock unit and restricted stock unit awards by certain eligible employees under the Company’s Deferred Compensation Plan. Our Board has authorized our non-employee directors to defer any portion of their cash retainer, committee chair fees and restricted stock units awarded after 2007 that they elect to convert into deferred stock units under our Directors’ Compensation Plan. As of December 31, 2010, 52.0 million shares were authorized and approved by our stockholders for grants under the EICP.

In July 2004, we announced a worldwide stock option grant under the Broad Based Stock Option Plan. This grant provided over 13,000 eligible employees with 100 non-qualified stock options. The stock options were granted at a price of \$46.44 per share, have a term of 10 years and vested on July 19, 2009.

The following table summarizes our compensation costs:

<u>For the years ended December 31,</u> In millions of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total compensation amount charged against income for stock compensation plans, including stock options, performance stock units and restricted stock units	<b>\$49.5</b>	\$53.8	\$36.3
Total income tax benefit recognized in Consolidated Statements of Income for share-based compensation	<b>\$17.4</b>	\$19.1	\$13.1

Compensation costs for stock compensation plans are primarily included in selling, marketing and administrative expense.

The decrease in share-based compensation expense from 2009 to 2010 was due to higher performance expectation adjustments for our performance stock unit awards in 2009 and higher forfeitures in 2010. The increase in share-based compensation expense from 2008 to 2009 resulted from higher performance expectations for our performance stock unit awards.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table sets forth information about the weighted-average fair value of options granted to employees during the year using the Black-Scholes option-pricing model and the weighted-average assumptions used for such grants:

<u>For the years ended December 31,</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Dividend yields	3.2%	3.3%	2.4%
Expected volatility	21.7%	21.6%	18.1%
Risk-free interest rates	3.1%	2.1%	3.1%
Expected lives in years	6.5	6.6	6.6

- “Dividend yields” means the sum of dividends declared for the four most recent quarterly periods, divided by the estimated average price of our Common Stock for the comparable periods;
- “Expected volatility” means the historical volatility of our Common Stock over the expected term of each grant;
- “Risk-free interest rates” means the U.S. Treasury yield curve rate in effect at the time of grant for periods within the contractual life of the option; and
- “Expected lives” means the period of time that options granted are expected to be outstanding based primarily on historical data.

**Stock Options**

The exercise price of each option awarded under the EICP equals the closing price of our Common Stock on the New York Stock Exchange on the date of grant. Prior to approval by our stockholders of the EICP on April 17, 2007, the exercise price of stock options granted under the former Key Employee Incentive Plan was determined as the closing price of our Common Stock on the New York Stock Exchange on the trading day immediately preceding the date the stock options were granted. Each option has a maximum term of 10 years. Options granted to executives and key employees prior to January 1, 2000, vested at the end of the second year after grant. The grants provide for pro-rated vesting over four years.

<u>For the years ended December 31,</u> <u>In millions of dollars</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Compensation amount charged against income for stock options	\$20.3	\$23.8	\$27.2
Compensation cost reductions related to stock option forfeitures associated with the GSCT	\$ —	\$ .3	\$ .6

Over the three-year period ended December 31, 2010, compensation costs have decreased. The decline was primarily associated with the worldwide stock option grant of 2004. This grant vested in July 2009 and, therefore, compensation cost was recorded for only seven months in 2009 compared with twelve months in 2008. In addition, we granted more restricted stock units in 2009 and 2010 in place of stock options. This resulted in a decrease in stock options expense, offset by an increase in compensation costs associated with restricted stock units.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

A summary of the status of our Company's stock options and changes during the years ending on those dates follows:

Stock Options	2010		2009		2008	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	18,230,439	\$ 41.63	16,671,643	\$ 42.08	13,889,116	\$ 43.26
Granted	2,828,800	\$ 39.61	3,196,950	\$ 34.95	4,468,494	\$ 35.95
Exercised	(2,646,860)	\$ 34.74	(1,069,137)	\$ 26.49	(1,196,417)	\$ 30.92
Forfeited	(415,297)	\$ 46.26	(569,017)	\$ 45.86	(489,550)	\$ 46.83
Outstanding at end of year	17,997,082	\$ 42.21	18,230,439	\$ 41.63	16,671,643	\$ 42.08
Options exercisable at year-end	10,507,127	\$ 45.13	10,628,081	\$ 43.79	8,752,201	\$ 40.91
Weighted-average fair value of options granted during the year (per share)	\$ 6.86		\$ 5.32		\$ 6.20	

For the years ended December 31,  
In millions of dollars

	2010	2009	2008
Intrinsic value of options exercised	\$30.2	\$12.9	\$10.0

The aggregate intrinsic value of options outstanding as of December 31, 2010 was \$131.7 million. The aggregate intrinsic value of exercisable options as of December 31, 2010 was \$60.7 million.

As of December 31, 2010, there was \$23.3 million of total unrecognized compensation cost related to non-vested stock option compensation arrangements granted under the EICP. We expect to recognize that cost over a weighted-average period of 2.2 years.

The following table summarizes information about stock options outstanding as of December 31, 2010:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as of 12/31/10	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable as of 12/31/10	Weighted-Average Exercise Price
\$ 31.25 - \$35.85	4,397,259	5.9	\$ 34.33	2,146,323	\$ 33.76
\$ 35.87 - \$39.57	7,681,884	7.0	\$ 37.51	3,031,925	\$ 36.97
\$ 39.67 - \$64.65	5,917,939	5.1	\$ 54.18	5,328,879	\$ 54.36
\$ 31.25 - \$64.65	17,997,082	6.1	\$ 42.21	10,507,127	\$ 45.13

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Performance Stock Units and Restricted Stock Units**

Under the EICP, we grant performance stock units to selected executives and other key employees. Vesting is contingent upon the achievement of certain performance objectives. We grant performance stock units over 3-year performance cycles. If we meet targets for financial measures at the end of the applicable 3-year performance cycle, we award the full number of shares to the participants.

The performance scores for 2008 through 2010 grants of performance stock units can range from 0% to 250% of the targeted amounts. There were also additional grants of 2008 performance stock units (“2008 supplemental grants”) which were supplements to the 2007 grants. The performance scores for the 2008 supplemental grants could range from 0% to 150%. The 2008 supplemental grants vested as of December 31, 2009, and were paid in 2010. No payment was earned for the 2007 grants.

We recognize the compensation cost associated with performance stock units ratably over the 3-year term, except for the 2008 supplemental grants. The compensation cost for the 2008 supplemental grants was recognized over 2 years. Compensation cost is based on the grant date fair value for the 2006 through 2010 grants because those grants can only be settled in shares of our Common Stock. Compensation cost for the 2005 grants was based on the year-end market value of the stock because those grants could be settled in cash or in shares of our Common Stock.

In 2010, 2009 and 2008, we awarded restricted stock units to certain executive officers and other key employees under the EICP. We also awarded restricted stock units quarterly to non-employee directors.

We recognize the compensation cost associated with employee restricted stock units over a specified restriction period based on the grant date fair value or year-end market value of the stock. We recognize expense for employee restricted stock units based on the straight-line method. We recognize the compensation cost associated with non-employee director restricted stock units at the grant date.

<u>For the years ended December 31,</u> In millions of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
Compensation amount charged against income for performance and restricted stock units	\$29.2	\$30.0	\$9.1

Compensation expense for stock units was higher in 2009 and 2010 because of increased performance expectations for the performance stock units. In addition, compensation expense was higher due to an increase in restricted stock units granted in place of stock options. The amount was offset in 2009 and 2010 by a decrease in compensation costs for stock options and forfeitures in 2010.

Performance stock units and restricted stock units granted for potential future distribution were as follows:

<u>For the years ended December 31,</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Units granted	650,407	583,864	541,623
Weighted-average fair value at date of grant	\$ 39.32	\$ 35.09	\$ 37.78

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

A summary of the status of our Company's performance stock units and restricted stock units as of December 31, 2010 and the change during 2010 follows:

<u>Performance Stock Units and Restricted Stock Units</u>	<u>2010</u>	<u>Weighted-average grant date fair value for equity awards or market value for liability awards</u>
Outstanding at beginning of year	1,530,464	\$37.11
Granted	650,407	\$39.32
Performance assumption change	313,340	\$35.87
Vested	(385,195)	\$38.15
Forfeited	(74,564)	\$38.17
Outstanding at end of year	<u>2,034,452</u>	\$37.82

As of December 31, 2010, there was \$32.8 million of unrecognized compensation cost relating to non-vested performance stock units and restricted stock units. We expect to recognize that cost over a weighted-average period of 2.1 years.

<u>For the years ended December 31,</u> In millions of dollars	<u>2010</u>	<u>2009</u>	<u>2008</u>
Intrinsic value of share-based liabilities paid, combined with the fair value of shares vested	\$16.5	\$9.9	\$10.3

The increase in share-based liability payments from 2009 to 2010 related to vesting of restricted stock units awarded in 2008 and 2009.

Deferred performance stock units, deferred restricted stock units, deferred directors' fees and accumulated dividend amounts totaled 451,822 units as of December 31, 2010.

We did not have any stock appreciation rights that were outstanding as of December 31, 2010.

**18. SUPPLEMENTAL BALANCE SHEET INFORMATION**

**Accounts Receivable—Trade**

In the normal course of business, we extend credit to customers that satisfy pre-defined credit criteria, based upon the results of our recurring financial account reviews and our evaluation of current and projected economic conditions. Our primary concentrations of credit risk are associated with McLane Company, Inc. and Wal-Mart Stores, Inc. McLane Company, Inc. is one of the largest wholesale distributors in the United States to convenience stores, drug stores, wholesale clubs and mass merchandisers. As of December 31, 2010, McLane Company, Inc. accounted for approximately 16.1% of our total accounts receivable. Wal-Mart Stores, Inc. accounted for approximately 14.5% of our total accounts receivable as of December 31, 2010. No other customer accounted for more than 10% of our year-end accounts receivable. We believe that we have little concentration of credit risk associated with the remainder of our customer base. Accounts Receivable-Trade, as shown on the Consolidated Balance Sheets, were net of allowances and anticipated discounts of \$19.5 million as of December 31, 2010. Allowances and discounts were \$20.8 million as of December 31, 2009.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Inventories**

We value the majority of our inventories under the last-in, first-out (“LIFO”) method and the remaining inventories at the lower of first-in, first-out (“FIFO”) cost or market. Inventories include material, labor and overhead. LIFO cost of inventories valued using the LIFO method was \$292.7 million as of December 31, 2010 and \$308.6 million as of December 31, 2009. The net impact of LIFO acquisitions and liquidations during 2010 was not material. During 2009, a reduction in inventories related to working capital initiatives resulted in a liquidation of applicable LIFO inventory quantities carried at lower costs in prior years. The LIFO liquidation resulted in a cost of sales decrease of \$12.7 million in 2009, with a corresponding reduction to the adjustment to LIFO. We stated inventories at amounts that did not exceed realizable values. Total inventories were as follows:

<u>December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>
Raw materials	\$ 209,058	\$ 246,572
Goods in process	73,068	84,000
Finished goods	404,666	376,573
Inventories at FIFO	686,792	707,145
Adjustment to LIFO	(153,170)	(187,433)
Total inventories	<u>\$ 533,622</u>	<u>\$ 519,712</u>

**Property, Plant and Equipment**

The property, plant and equipment balance included construction in progress of \$179.8 million as of December 31, 2010 and \$78.9 million as of December 31, 2009. Major classes of property, plant and equipment were as follows:

<u>December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>
Land	\$ 71,060	\$ 70,388
Buildings	843,094	807,155
Machinery and equipment	2,410,609	2,365,325
Property, plant and equipment, gross	3,324,763	3,242,868
Accumulated depreciation	(1,887,061)	(1,838,101)
Property, plant and equipment, net	<u>\$ 1,437,702</u>	<u>\$ 1,404,767</u>

During 2010, we recorded accelerated depreciation of property, plant and equipment of \$12.4 million associated with our Next Century program. As of December 31, 2010, certain real estate with a carrying value or fair value less cost to sell, if lower, of \$10.4 million was being held for sale. These assets were associated with the closure of facilities as part of our global supply chain transformation program.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Goodwill and Other Intangible Assets**

Goodwill and intangible assets were as follows:

<u>December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>
<b>Unamortized intangible assets:</b>		
Goodwill balance at beginning of year	\$ 571,580	\$ 554,677
Goodwill acquired during year and other adjustments	—	1,767
Effect of foreign currency translation	5,467	15,136
Impairment charge	(52,913)	—
Goodwill balance at end of year	<u>\$ 524,134</u>	<u>\$ 571,580</u>
Trademarks	<u>\$ 91,305</u>	<u>\$ 91,305</u>
<b>Amortized intangible assets, gross:</b>		
Customer-related	33,926	33,926
Intangible asset associated with cooperative agreement with Bauducco	13,683	13,683
Patents	8,317	8,317
Effect of foreign currency translation	(1,328)	(3,368)
Total other intangible assets, gross	<u>145,903</u>	<u>143,863</u>
Accumulated amortization	<u>(22,823)</u>	<u>(18,343)</u>
Other intangibles	<u>\$ 123,080</u>	<u>\$ 125,520</u>

We recorded a non-cash goodwill impairment charge of \$52.9 million to reduce the carrying value of Godrej Hershey Ltd. to its fair value. The share of the charge associated with the noncontrolling interests was \$8.2 million. For more information, see *Note 1. Summary of Significant Accounting Policies* under Goodwill and Other Intangible Assets.

We perform annual impairment tests of goodwill and other intangible assets with indefinite lives at the beginning of the fourth quarter of each year or when circumstances arise that indicate a possible impairment might exist. We determined that none of our goodwill or other intangible assets were impaired as of December 31, 2010.

In January 2008, Hershey do Brasil entered into a cooperative agreement with Bauducco. In the first quarter of 2008, we received approximately \$2.0 million in cash and recorded an other intangible asset of \$13.7 million associated with the cooperative agreement with Bauducco in exchange for our conveying to Bauducco a 49% interest in Hershey do Brasil.

The useful lives of trademarks were determined to be indefinite and, therefore, we are not amortizing these assets. We amortize customer-related intangible assets over their estimated useful lives of approximately 12 years. We amortize patents over their remaining legal lives of approximately 8 years. Total amortization expense for other intangible assets was \$4.5 million in 2010, \$4.2 million in 2009 and \$4.1 million in 2008.

Estimated annual amortization expense for other intangible assets over the next five years is \$4.5 million for 2011 through 2014, declining to \$3.8 million in 2015.



**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Accrued Liabilities**

Accrued liabilities were as follows:

<u>December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>
Payroll, compensation and benefits	<b>\$219,353</b>	\$213,715
Advertising and promotion	<b>210,543</b>	202,547
Other	<b>163,412</b>	130,200
Total accrued liabilities	<b><u>\$593,308</u></b>	<b><u>\$546,462</u></b>

**Other Long-term Liabilities**

Other long-term liabilities were as follows:

<u>December 31,</u> In thousands of dollars	<u>2010</u>	<u>2009</u>
Accrued post-retirement benefits	<b>\$277,963</b>	\$293,273
Other	<b>216,498</b>	208,061
Total other long-term liabilities	<b><u>\$494,461</u></b>	<b><u>\$501,334</u></b>

**19. SEGMENT INFORMATION**

We operate as a single reportable segment in manufacturing, marketing, selling and distributing various package types of chocolate and sugar confectionery products, pantry items and gum and mint refreshment products under more than 80 brand names. Our five operating segments comprise geographic regions including the United States, Canada, Mexico, Brazil and other international locations, such as India, Korea, Japan, the Middle East, China and the Philippines. We market our products in approximately 60 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, 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.

The percentage of total consolidated net sales for businesses outside of the United States was 15.2% for 2010, 14.3% for 2009 and 14.4% for 2008. The percentage of total consolidated assets outside of the United States as of December 31, 2010 was 14.8%, and 17.5% as of December 31, 2009.

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, exceeded 10% of total net sales in each of the last three years, totaling \$1.3 billion in 2010, \$1.4 billion in 2009 and \$1.3 billion in 2008. McLane Company, Inc. is the primary distributor of our products to Wal-Mart Stores, Inc.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**20. QUARTERLY DATA (Unaudited)**

Summary quarterly results were as follows:

<u>Year 2010</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
<u>In thousands of dollars except per share amounts</u>				
Net sales	<b>\$ 1,407,843</b>	<b>\$ 1,233,242</b>	<b>\$ 1,547,115</b>	<b>\$ 1,482,809</b>
Gross profit	<b>593,980</b>	<b>546,538</b>	<b>655,220</b>	<b>619,470</b>
Net income	<b>147,394</b>	<b>46,723</b>	<b>180,169</b>	<b>135,513</b>
Per share—Basic—Class B Common Stock	<b>.60</b>	<b>.19</b>	<b>.74</b>	<b>.55</b>
Per share—Diluted—Class B Common Stock	<b>.60</b>	<b>.19</b>	<b>.73</b>	<b>.55</b>
Per share—Basic—Common Stock	<b>.66</b>	<b>.21</b>	<b>.81</b>	<b>.61</b>
Per share—Diluted—Common Stock	<b>.64</b>	<b>.20</b>	<b>.78</b>	<b>.59</b>

<u>Year 2009</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
<u>In thousands of dollars except per share amounts</u>				
Net sales	<b>\$ 1,236,031</b>	<b>\$ 1,171,183</b>	<b>\$ 1,484,118</b>	<b>\$ 1,407,336</b>
Gross profit	<b>440,228</b>	<b>453,290</b>	<b>589,098</b>	<b>570,521</b>
Net income	<b>75,894</b>	<b>71,298</b>	<b>162,023</b>	<b>126,779</b>
Per share—Basic—Class B Common Stock	<b>.31</b>	<b>.29</b>	<b>.66</b>	<b>.51</b>
Per share—Diluted—Class B Common Stock <sup>(a)</sup>	<b>.31</b>	<b>.29</b>	<b>.65</b>	<b>.51</b>
Per share—Basic—Common Stock <sup>(a)</sup>	<b>.34</b>	<b>.32</b>	<b>.73</b>	<b>.57</b>
Per share—Diluted—Common Stock	<b>.33</b>	<b>.31</b>	<b>.71</b>	<b>.55</b>

(a) Quarterly income per share amounts do not total to the annual amounts due to changes in weighted-average shares outstanding during the year.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES**

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the “Exchange Act”), the Company conducted an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of December 31, 2010. This evaluation was carried out under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective. There has been no change during the most recent fiscal quarter in the Company’s internal control over financial reporting identified in connection with the evaluation that has materially affected, or is likely to materially affect, the Company’s internal control over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company’s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company’s reports filed under the Exchange Act is accumulated and communicated to management, including the Company’s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company’s Common Stock is listed on the New York Stock Exchange (“NYSE”) under the ticker symbol “HSY.”

## MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

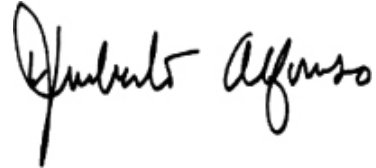
The management of The Hershey Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that, as of December 31, 2010, the Company's internal control over financial reporting was effective based on those criteria.



**David J. West**  
*Chief Executive Officer*



**Humberto P. Alfonso**  
*Chief Financial Officer*

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
The Hershey Company:

We have audited The Hershey Company and subsidiaries (the "Company") internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Hershey Company as of December 31, 2010 and 2009, and the related consolidated statements of income, cash flows and stockholders' equity for each of the years in the three-year period ended December 31, 2010, and our report dated February 18, 2011 expressed an unqualified opinion on those consolidated financial statements.

**KPMG LP**

New York, New York  
February 18, 2011

**Item 9B. OTHER INFORMATION**

None.

**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The names, ages, positions held with our Company, periods of service as a director, principal occupations, business experience and other directorships of directors and nominees for director of our Company, together with a discussion of the specific experience, qualifications, attributes and skills that led the Board to conclude that the director or nominee should serve as a director at this time, are located in the Proxy Statement in the section entitled "Proposal No. 1—Election of Directors," following the question "Who are the nominees?," which information is incorporated herein by reference.

**Our Executive Officers as of February 9, 2011**

<u>Name</u>	<u>Age</u>	<u>Positions Held During the Last Five Years</u>
David J. West	47	President and Chief Executive Officer (December 2007); President (October 2007); Executive Vice President, Chief Operating Officer (and Chief Financial Officer until July 2007, when his successor to that position was elected) (January 2007); Senior Vice President, Chief Financial Officer (January 2005)
John P. Bilbrey	54	Executive Vice President, Chief Operating Officer (November 2010); Senior Vice President, President Hershey North America (December 2007); Senior Vice President, President International Commercial Group (November 2005)
Humberto P. Alfonso <sup>(1)</sup>	53	Senior Vice President, Chief Financial Officer (July 2007); Vice President, Finance and Planning, North American Commercial Group (October 2006); Vice President, Finance and Planning, U.S. Commercial Group (July 2006)
C. Daniel Azzara	56	Senior Vice President, Global Research and Development (January 2011); Vice President, Global Research and Development (April 2007); Vice President, Global Innovation and Quality (October 2005)
Michele G. Buck	49	Senior Vice President, Global Chief Marketing Officer (December 2007); Senior Vice President, Chief Marketing Officer, U.S. Commercial Group (November 2005)
Javier H. Idrovo <sup>(2)</sup>	43	Senior Vice President, Strategy and Business Development (December 2008)
Terence L. O'Day <sup>(3)</sup>	61	Senior Vice President, Global Operations (December 2008)
Burton H. Snyder	63	Senior Vice President, General Counsel and Secretary (November 2003)
David W. Tacka	57	Vice President, Chief Accounting Officer (February 2004)

There are no family relationships among any of the above-named officers of our Company.

- (1) Mr. Alfonso was elected Vice President, Finance and Planning, U.S. Commercial Group effective July 17, 2006. Prior to joining our Company he was Executive Vice President Finance, Chief Financial Officer, Americas Beverages, Cadbury Schweppes (March 2005).
- (2) Mr. Idrovo was elected Senior Vice President, Strategy and Business Development effective December 2, 2008. Prior to joining our Company he was President, Dole Packaged Foods, LLC (January 2006).
- (3) Mr. O'Day was elected Senior Vice President, Global Operations effective December 2, 2008. Prior to joining our Company he was Executive Vice President and Chief Operating Officer of Mannatech, Inc. (June 2006); Executive Vice President Operations, Refrigerated Foods, Conagra Refrigerated Foods Companies (January 2001).

Our Executive Officers are generally elected each year at the organization meeting of the Board in April.

Information regarding the identification of the Audit Committee as a separately-designated standing committee of the Board and information regarding the status of one or more members of the Audit Committee being an “audit committee financial expert” is located in the Proxy Statement in the section entitled “Governance of the Company,” following the question “What are the committees of the Board and what are their functions?,” which information is incorporated herein by reference.

Reporting of any inadvertent late filings under Section 16(a) of the Securities Exchange Act of 1934, as amended, is located in the section of the Proxy Statement entitled “Section 16(a) Beneficial Ownership Reporting Compliance.” This information is incorporated herein by reference.

Information regarding our Code of Ethical Business Conduct applicable to our directors, officers and employees is located in Part I of this Annual Report on Form 10-K, under the heading “Available Information.”

**Item 11. EXECUTIVE COMPENSATION**

Information regarding compensation of each of the named executive officers, including our Chief Executive Officer, and the Compensation Committee Report are set forth in the section of the Proxy Statement entitled “Executive Compensation,” which information is incorporated herein by reference. Information regarding compensation of our directors is located in the section of the Proxy Statement entitled “Director Compensation,” which information is incorporated herein by reference.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

- (a) Information concerning ownership of our voting securities by certain beneficial owners, individual nominees for director, the named executive officers, including persons serving as our Chief Executive Officer and Chief Financial Officer, and executive officers as a group, is set forth in the section entitled “Ownership of the Company’s Securities” in the Proxy Statement, which information is incorporated herein by reference.
- (b) Information about the Company’s Common Stock that may be issued under equity compensation plans as of December 31, 2010 is set forth in the Proxy Statement in the section entitled “Proposal No. 5—Approval of the Amended and Restated Equity and Incentive Compensation Plan,” which information is incorporated herein by reference.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information regarding transactions with related persons is located in the section of the Proxy Statement entitled “Certain Transactions and Relationships” and information regarding director independence is located in the section of the Proxy Statement entitled “Governance of the Company” following the question, “Which directors are independent, and how does the Board make that determination?,” which information is incorporated herein by reference.

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information regarding “Principal Accountant Fees and Services,” including the policy regarding pre-approval of audit and non-audit services performed by our Company’s independent auditors, is located in the section entitled “Information About our Independent Auditors” in the Proxy Statement, which information is incorporated herein by reference.



**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**Item 15(a)(1): Financial Statements**

The audited consolidated financial statements of the Company and its subsidiaries and the Report of the Independent Registered Public Accounting Firm thereon, as required to be filed with this report, are located under Item 8 of this report.

**Item 15(a)(2): Financial Statement Schedule**

Schedule II—Valuation and Qualifying Accounts (see Page 110) for our Company and its subsidiaries for the years ended December 31, 2010, 2009 and 2008 is filed as required by Item 15(c).

We omitted other schedules which were not applicable or not required, or because we provided the required information in the consolidated financial statements or the notes to consolidated financial statements.

We omitted the financial statements of our parent company because we are primarily an operating company and there are no significant restricted net assets of consolidated and unconsolidated subsidiaries.

**Item 15(a)(3): Exhibits**

The following items are attached or incorporated by reference in response to Item 15(c):

Articles of Incorporation and By-laws

- 3.1 The Company's Restated Certificate of Incorporation, as amended, is incorporated by reference from Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 2005. The By-laws, as amended and restated as of October 5, 2010, are incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K, filed October 7, 2010.

Instruments defining the rights of security holders, including indentures

- 4.1 The Company has issued certain long-term debt instruments, no one class of which creates indebtedness exceeding 10% of the total assets of the Company and its subsidiaries on a consolidated basis. These classes consist of the following:
- 1) 5.300% Notes due 2011
  - 2) 6.95% Notes due 2012
  - 3) 5.00% Notes due 2013
  - 4) 4.850% Notes due 2015
  - 5) 5.450% Notes due 2016
  - 6) 4.125% Notes due 2020
  - 7) 8.8% Debentures due 2021
  - 8) 7.2% Debentures due 2027
  - 9) Other Obligations

We will furnish copies of the above debt instruments to the Commission upon request.

## Material contracts

- 10.1 Kit Kat and Rolo License Agreement (the “License Agreement”) between the Company and Rowntree Mackintosh Confectionery Limited is incorporated by reference from Exhibit 10(a) to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 1980. The License Agreement was amended in 1988 and the Amendment Agreement is incorporated by reference from Exhibit 19 to the Company’s Quarterly Report on Form 10-Q for the quarter ended July 3, 1988. The License Agreement was assigned by Rowntree Mackintosh Confectionery Limited to Societe des Produits Nestle SA as of January 1, 1990. The Assignment Agreement is incorporated by reference from Exhibit 19 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 1990.
- 10.2 Peter Paul/York Domestic Trademark & Technology License Agreement between the Company and Cadbury Schweppes Inc. (now Cadbury Ireland Limited) dated August 25, 1988, is incorporated by reference from Exhibit 2(a) to the Company’s Current Report on Form 8-K dated September 8, 1988. This agreement was assigned by the Company to its wholly-owned subsidiary, Hershey Chocolate & Confectionery Corporation.
- 10.3 Cadbury Trademark & Technology License Agreement between the Company and Cadbury Limited (now Cadbury UK Limited) dated August 25, 1988, is incorporated by reference from Exhibit 2(a) to the Company’s Current Report on Form 8-K dated September 8, 1988. This agreement was assigned by the Company to its wholly-owned subsidiary, Hershey Chocolate & Confectionery Corporation.
- 10.4 Trademark and Technology License Agreement between Huhtamaki and the Company dated December 30, 1996, is incorporated by reference from Exhibit 10 to the Company’s Current Report on Form 8-K dated February 26, 1997. This agreement was assigned by the Company to its wholly-owned subsidiary, Hershey Chocolate & Confectionery Corporation. The agreement was amended and restated in 1999 and the Amended and Restated Trademark and Technology License Agreement is incorporated by reference from Exhibit 10.2 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 1999.
- 10.5 Five Year Credit Agreement dated as of December 8, 2006 among the Company and the banks, financial institutions and other institutional lenders listed on the respective signature pages thereof (“Lenders”), Citibank, N.A., as administrative agent for the Lenders (as defined therein), Bank of America, N.A., as syndication agent, UBS Loan Finance LLC, as documentation agent, and Citigroup Global Markets, Inc. and Banc of America Securities LLC, as joint lead arrangers and joint book managers is incorporated by reference from Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed December 11, 2006.
- 10.6 Master Innovation and Supply Agreement between the Company and Barry Callebaut, AG, dated July 13, 2007, is incorporated by reference from Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed July 19, 2007.
- 10.7 Supply Agreement for Monterrey, Mexico, between the Company and Barry Callebaut, AG, dated July 13, 2007, is incorporated by reference from Exhibit 10.2 to the Company’s Current Report on Form 8-K, filed July 19, 2007.

## Executive Compensation Plans and Management Contracts

- 10.8 The Long-Term Incentive Program Participation Agreement is incorporated by reference from Exhibit 10.2 to the Company’s Current Report on Form 8-K filed February 18, 2005.
- 10.9 The Company’s Equity and Incentive Compensation Plan, as approved by our stockholders on April 17, 2007, is incorporated by reference from Exhibit 10.1 to the Company’s Current Report on Form 8-K filed April 20, 2007.

- 10.10 Terms and Conditions of Nonqualified Stock Option Awards under the Equity and Incentive Compensation Plan is incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 5, 2009.
- 10.11 The Company's Executive Benefits Protection Plan (Group 3A), Amended and Restated as of July 1, 2009, is incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 5, 2009.
- 10.12 First Amendment to The Hershey Company Executive Benefits Protection Plan (Group 3A), Amended and Restated as of July 1, 2009, is incorporated by reference from Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.
- 10.13 The Company's Deferred Compensation Plan, Amended and Restated as of October 1, 2007, is incorporated by reference from Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
- 10.14 First Amendment to The Hershey Company Deferred Compensation Plan (Amended and Restated as of October 1, 2007) is incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2008.
- 10.15 Second Amendment to The Hershey Company Deferred Compensation Plan (Amended and Restated as of October 1, 2007) is incorporated by reference from Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- 10.16 Executive Confidentiality and Restrictive Covenant Agreement is incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2008.
- 10.17 Executive Confidentiality and Restrictive Covenant Agreement, adopted as of February 16, 2009, is incorporated by reference from Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- 10.18 The Company's Supplemental Executive Retirement Plan, Amended and Restated as of October 2, 2007, is incorporated by reference from Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
- 10.19 First Amendment to the Company's Supplemental Executive Retirement Plan, Amended and Restated as of October 2, 2007, is incorporated by reference from Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- 10.20 The Company's Compensation Limit Replacement Plan, Amended and Restated as of January 1, 2009, is incorporated by reference from Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- 10.21 The Amended and Restated Executive Employment Agreement between the Company and David J. West, dated as of October 2, 2007, is incorporated by reference from Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
- 10.22 First Amendment to Amended and Restated Executive Employment Agreement between the Company and David J. West, effective as of February 13, 2008, is incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2008.
- 10.23 Second Amendment to Amended and Restated Executive Employment Agreement between the Company and David J. West, effective as of December 29, 2008, is incorporated by reference from Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- 10.24 Letter confirming changes to compensation of Burton H. Snyder, dated June 16, 2008, is incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2008.

10.25 The Company's Directors' Compensation Plan, Amended and Restated as of December 2, 2008, is incorporated by reference from Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

10.26 Form of Notice of Special Award of Restricted Stock Units is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K, filed February 25, 2010.

#### Broad Based Equity Compensation Plans

10.27 The Company's Broad Based Stock Option Plan, as amended, is incorporated by reference from Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

#### Other Exhibits

12.1 Computation of ratio of earnings to fixed charges statement

A computation of ratio of earnings to fixed charges for the fiscal years ended December 31, 2010, 2009, 2008, 2007 and 2006 is attached hereto and filed as Exhibit 12.1.

21.1 Subsidiaries of the Registrant

A list setting forth subsidiaries of the Company is attached hereto and filed as Exhibit 21.1.

23.1 Independent Auditors' Consent

The consent dated February 18, 2011 to the incorporation of reports of the Company's Independent Auditors is attached hereto and filed as Exhibit 23.1.

31.1 Certification of David J. West, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is attached hereto and filed as Exhibit 31.1.

31.2 Certification of Humberto P. Alfonso, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is attached hereto and filed as Exhibit 31.2.

32.1 Certification of David J. West, Chief Executive Officer, and Humberto P. Alfonso, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is attached hereto and furnished as Exhibit 32.1.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
The Hershey Company:

Under date of February 18, 2011, we reported on the consolidated balance sheets of The Hershey Company and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, cash flows and stockholders' equity for each of the years in the three-year period ended December 31, 2010, which are included in The Hershey Company's Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

New York, New York  
February 18, 2011

**THE HERSHEY COMPANY AND SUBSIDIARIES**  
**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**  
**For the Years Ended December 31, 2010, 2009 and 2008**

<u>Description</u> In thousands of dollars	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions from Reserves</u>	<u>Balance at End of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts(a)</u>		
Year Ended December 31, 2010:					
Reserves deducted in the consolidated balance sheet from the assets to which they apply					
Accounts Receivable—Trade	<u>\$ 15,721</u>	<u>\$ 5,873</u>	<u>\$ —</u>	<u>\$ (6,404)</u>	<u>\$15,190</u>
Year Ended December 31, 2009:					
Reserves deducted in the consolidated balance sheet from the assets to which they apply					
Accounts Receivable—Trade	<u>\$ 16,594</u>	<u>\$ 4,243</u>	<u>\$ —</u>	<u>\$ (5,116)</u>	<u>\$15,721</u>
Year Ended December 31, 2008:					
Reserves deducted in the consolidated balance sheet from the assets to which they apply					
Accounts Receivable—Trade	<u>\$ 17,807</u>	<u>\$ 3,968</u>	<u>\$ —</u>	<u>\$ (5,181)</u>	<u>\$16,594</u>

(a) Includes recoveries of amounts previously written off and amounts related to acquired businesses.

## CERTIFICATION

I, David J. West, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Hershey 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 officer(s) 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 officer(s) 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.



David J. West  
Chief Executive Officer  
February 18, 2011



## CERTIFICATION

I, Humberto P. Alfonso, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Hershey 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 officer(s) 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 officer(s) 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.



Humberto P. Alfonso  
Chief Financial Officer  
February 18, 2011

**THE HERSHEY COMPANY**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
**For the Years Ended December 31, 2010, 2009, 2008, 2007 and 2006**  
(in thousands of dollars except for ratios)  
(Unaudited)

	2010	2009	2008	2007	2006
<b>Earnings:</b>					
Income from continuing operations before income taxes	\$ 808,864 <sup>(a)</sup>	\$ 671,131 <sup>(b)</sup>	\$ 492,022 <sup>(c)</sup>	\$ 340,242 <sup>(d)</sup>	\$ 876,502 <sup>(e)</sup>
<b>Add (Deduct):</b>					
Interest on indebtedness	97,704	91,336	99,678	121,066	117,738
Portion of rents representative of the interest factor <sup>(f)</sup>	7,472	8,294	9,372	8,147	7,647
Amortization of debt expense	1,139	970	922	756	574
Amortization of capitalized interest	1,478	1,354	1,637	2,392	2,850
Adjustment to exclude minority interest and income or loss from equity investee	(8,183)	(5,614)	(3,465)	(503)	—
<b>Earnings as adjusted</b>	<u>\$ 908,474</u>	<u>\$ 767,471</u>	<u>\$ 600,166</u>	<u>\$ 472,100</u>	<u>\$ 1,005,311</u>
<b>Fixed Charges:</b>					
Interest on indebtedness	\$ 97,704	\$ 91,336	\$ 99,678	\$ 121,066	\$ 117,738
Portion of rents representative of the interest factor <sup>(f)</sup>	7,472	8,294	9,372	8,147	7,647
Amortization of debt expense	1,139	970	922	756	574
Capitalized interest	2,116	2,640	5,779	2,770	77
<b>Total fixed charges</b>	<u>\$ 108,431</u>	<u>\$ 103,240</u>	<u>\$ 115,751</u>	<u>\$ 132,739</u>	<u>\$ 126,036</u>
<b>Ratio of earnings to fixed charges</b>	<u>8.38</u>	<u>7.43</u>	<u>5.18</u>	<u>3.56</u>	<u>7.98</u>

## NOTES:

- (a) Includes total business realignment and impairment charges of \$98.6 million before tax.  
(b) Includes total business realignment and impairment charges of \$99.1 million before tax.  
(c) Includes total business realignment and impairment charges of \$180.7 million before tax.  
(d) Includes total business realignment and impairment charges of \$412.6 million before tax.  
(e) Includes total business realignment and impairment charges of \$11.6 million before tax.  
(f) Portion of rents representative of the interest factor consists of one-third of rental expense for operating leases.

**SUBSIDIARIES OF REGISTRANT**

Below is a listing of our subsidiaries, their jurisdictions of incorporation, and the name under which they do business. Each is wholly owned. We do not list certain subsidiaries because when considered in the aggregate as a single subsidiary, they do not constitute a significant subsidiary as of December 31, 2010.

<u>Subsidiary Name</u>	<u>Jurisdiction of Incorporation</u>
Hershey Chocolate & Confectionery Corporation	Delaware
Hershey Chocolate of Virginia, Inc.	Delaware
Hershey Canada, Inc.	Canada
Hershey Mexico S.A. de C.V.	Mexico
Hershey Netherlands B.V.	The Netherlands
Hershey International Ltd.	Delaware
Mauna Loa Macadamia Nut Corporation	Hawaii

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
The Hershey Company:

We consent to the incorporation by reference in the registration statements (File No. 333-159246, File No. 333-143764, File No. 333-107706, File No. 333-72100, File No. 333-72112, File No. 333-52509, File No. 333-25853, File No. 33-45431, File No. 33-45556 and File No. 33-12718) on Forms S-3 and S-8 of The Hershey Company of our reports dated February 18, 2011, with respect to the consolidated balance sheets of The Hershey Company and subsidiaries as of December 31, 2010 and 2009, the related consolidated statements of income, cash flows and stockholders' equity for each of the years in the three-year period ended December 31, 2010, and the related financial statement schedule, and the effectiveness of internal control over financial reporting as of December 31, 2010, which reports appear in the December 31, 2010 Annual Report on Form 10-K of The Hershey Company.

/s/ KPMG LLP

New York, New York  
February 18, 2011

## CERTIFICATION

I, David J. West, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Hershey 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 officer(s) 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 officer(s) 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.

/s/ DAVID J. WEST

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David J. West  
Chief Executive Officer  
February 18, 2011

**CERTIFICATION**

I, Humberto P. Alfonso, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Hershey 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 officer(s) 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 officer(s) 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.

/s/ HUMBERTO P. ALFONSO

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**Humberto P. Alfonso**  
**Chief Financial Officer**  
**February 18, 2011**

## CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of The Hershey Company (the "Company") hereby certify that the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 18, 2011

/s/ DAVID J. WEST

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**David J. West**  
Chief Executive Officer

Date: February 18, 2011

/s/ HUMBERTO P. ALFONSO

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**Humberto P. Alfonso**  
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.