UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended July 3, 1994

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

HERSHEY FOODS CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 23-0691590 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 100 Crystal A Drive<br>Hershey, Pennsylvania | 17033 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (717) 534-6799

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

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

YES [ X ] NO

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

Common Stock, $1 par value - 71,595,018 shares, as of July 21, 1994. Class B Common Stock, $1 par value - 15,242,979 shares, as of July 21, 1994.

Exhibit Index - Page 13

HERSHEY FOODS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars except per share amounts)

| | For the Three Months Ended July 3, 1994 | July 4, 1993 |
|---|---|---|
| Net Sales | $675,983 | $618,430 |
| Costs and Expenses: | | |
| Cost of sales | 403,100 | 363,596 |
| Selling, marketing and administrative | 222,313 | 205,768 |
| Total costs and expenses | 625,413 | 569,364 |
| Income before Interest and Income Taxes | 50,570 | 49,066 |
| Interest expense, net | 8,503 | 6,192 |
| Income before Income Taxes | 42,067 | 42,874 |
| Provision for income taxes | 16,742 | 16,849 |
| Net Income | $ 25,325 | $ 26,025 |
| Net Income per Share | $ .29 | $ .29 |
| Cash Dividends Paid per Share of Common Stock | $ .3000 | $ .2700 |
| Cash Dividends Paid per Share of Class B Common Stock | $ .2725 | $ .2450 |

The accompanying notes are an integral part of these statements.

HERSHEY FOODS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars except per share amounts)

| | For the Six Months Ended July 3, 1994 | July 4, 1993 |
|---|---|---|
| Net Sales | $1,559,873 | $1,516,218 |
| Costs and Expenses: | | |
| Cost of sales | 929,828 | 874,365 |
| Selling, marketing and administrative | 483,882 | 479,013 |
| Total costs and expenses | 1,413,710 | 1,353,378 |
| Gain on Sale of Investment Interest | - | 80,642 |
| Income before Interest, Income Taxes and Accounting Changes | 146,163 | 243,482 |
| Interest expense, net | 16,029 | 13,753 |
| Income before Income Taxes and Accounting Changes | 130,134 | 229,729 |
| Provision for income taxes | 51,793 | 98,649 |
| Income before Cumulative Effect of Accounting Changes | 78,341 | 131,080 |
| Net cumulative effect of accounting changes | - | (103,908) |
| Net Income | $ 78,341 | $ 27,172 |
| Income per Share: | | |
| Before accounting changes | $ .90 | $ 1.45 |
| Net cumulative effect of accounting changes | - | (1.15) |
| Net income | $ .90 | $ .30 |
| Cash Dividends Paid per Share of Common Stock | $ .6000 | $ .5400 |
| Cash Dividends Paid per Share of Class B Common Stock | $ .5450 | $ .4900 |

The accompanying notes are an integral part of these statements.

# HERSHEY FOODS CORPORATION
## CONSOLIDATED CONDENSED BALANCE SHEETS
JULY 3, 1994 AND DECEMBER 31, 1993
(in thousands of dollars)

| ASSETS | 1994 | 1993 |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ 15,678 | $ 15,959 |
| Accounts receivable - trade | 161,130 | 294,974 |
| Inventories | 615,652 | 453,442 |
| Deferred income taxes | 83,334 | 85,548 |
| Prepaid expenses and other | 49,159 | 39,073 |
| Total current assets | 924,953 | 888,996 |
| Property, Plant and Equipment, at cost | 2,104,665 | 2,041,764 |
| Less - accumulated depreciation and amortization | 622,467 | 580,860 |
| Net property, plant and equipment | 1,482,198 | 1,460,904 |
| Intangibles Resulting from Business Acquisitions | 469,416 | 473,408 |
| Other Assets | 31,979 | 31,783 |
| Total assets | $2,908,546 | $2,855,091 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | $ 102,596 | $ 125,658 |
| Accrued liabilities | 258,929 | 301,989 |
| Accrued income taxes | - | 35,603 |
| Short-term debt | 485,250 | 337,286 |
| Current portion of long-term debt | 18,358 | 13,309 |
| Total current liabilities | 865,133 | 813,845 |
| Long-term Debt | 159,043 | 165,757 |
| Other Long-term Liabilities | 294,921 | 290,401 |
| Deferred Income Taxes | 177,994 | 172,744 |
| Total liabilities | 1,497,091 | 1,442,747 |
| Stockholders' Equity: | | |
| Preferred Stock, shares issued: none in 1994 and 1993 | - | - |
| Common Stock, shares issued: 74,679,357 in 1994 and 74,669,057 in 1993 | 74,679 | 74,669 |
| Class B Common Stock, shares issued: 15,242,979 in 1994 and 15,253,279 in 1993 | 15,243 | 15,253 |
| Additional paid-in capital | 50,055 | 51,196 |
| Cumulative foreign currency translation adjustments | (11,616) | (13,905) |
| Unearned ESOP compensation | (39,120) | (41,515) |
| Retained earnings | 1,472,467 | 1,445,609 |
| Treasury - Common Stock shares at cost: 2,990,639 in 1994 and 2,309,100 in 1993 | (150,253) | (118,963) |
| Total stockholders' equity | 1,411,455 | 1,412,344 |
| Total liabilities and stockholders' equity | $2,908,546 | $2,855,091 |

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

HERSHEY FOODS CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

| | For the Six Months Ended July 3, 1994 | July 4, 1993 |
|---|---|---|
| Cash Flows Provided from (Used by) Operating Activities | $ 13,544 | $ (3,445) |
| Cash Flows Provided from (Used by) Investing Activities | | |
| Capital additions | (79,354) | (98,901) |
| Business acquisitions | - | (14,600) |
| Investment interest | - | 259,718 |
| Other, net | 2,635 | 1,871 |
| Net Cash Flows Provided from (Used by) Investing Activities | (76,719) | 148,088 |
| Cash Flows Provided from (Used by) Financing Activities | | |
| Net increase in short-term debt | 147,964 | 10,579 |
| Long-term borrowings | - | 812 |
| Repayment of long-term debt | (2,297) | (99,535) |
| Cash dividends paid | (51,483) | (47,938) |
| Repurchase of Common Stock | (31,290) | - |
| Net Cash Flows Provided from (Used by) Financing Activities | 62,894 | (136,082) |
| Increase (Decrease) in Cash and Cash Equivalents | (281) | 8,561 |
| Cash and Cash Equivalents, beginning of period | 15,959 | 24,114 |
| Cash and Cash Equivalents, end of period | $ 15,678 | $ 32,675 |
| Interest Paid | $ 15,282 | $ 16,098 |
| Income Taxes Paid | $ 81,891 | $ 89,078 |

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The accompanying unaudited consolidated condensed financial statements include the accounts of the Corporation and its subsidiaries after elimination of intercompany accounts and transactions. These statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the information contained herein. All such adjustments were of a normal and recurring nature.

2. Interest expense, net consisted of the following:

| | For the Six Months Ended July 3, 1994 | For the Six Months Ended July 4, 1993 |
|---|---|---|
| | (in thousands of dollars) | |
| Interest expense | $ 18,848 | $ 18,257 |
| Interest income | (851) | (2,036) |
| Capitalized interest | (1,968) | (2,468) |
| Interest expense, net | $ 16,029 | $ 13,753 |

3. Income per share has been computed based on the weighted average number of shares of the Common Stock and the Class B Common Stock outstanding during the period. Average shares outstanding during the second quarter and six months ended July 3, 1994 were 87,095,985 and 87,256,569, respectively, and were 90,186,336 for all periods in 1993. There were no shares of Preferred Stock outstanding during the periods presented.

   During the second quarter of 1993, the Corporation's Board of Directors approved a share repurchase program to acquire from time to time through open market or privately negotiated transactions up to $200 million of Common Stock. A total of 3,254,639 shares have been repurchased under the program of which 2,990,639 shares were held as Treasury Stock as of July 3, 1994.

4. The majority of inventories are valued under the last-in, first-out (LIFO) method. The remaining inventories are stated at the lower of first-in, first-out (FIFO) cost or market. Inventories were as follows:

| | July 3, 1994 | December 31, 1993 |
|---|---|---|
| | (in thousands of dollars) | |
| Raw materials | $337,000 | $209,570 |
| Goods in process | 39,647 | 37,261 |
| Finished goods | 310,672 | 265,616 |
| Inventories at FIFO | 687,319 | 512,447 |
| Adjustment to LIFO | (71,667) | (59,005) |
| Total inventories | $615,652 | $453,442 |

5. In March 1993, the Corporation recorded a pre-tax gain of $80.6 million on the sale of its 18.6% interest in Freia Marabou a.s. This gain had the effect of increasing net income in the first quarter of 1993 by $40.6 million. Gross proceeds received from the sale were $259.7 million.

6. In March 1993, the Corporation purchased certain assets of the Cleveland area Ideal Macaroni and Mrs. Weiss Noodle companies for approximately $14.6 million.

   In September 1993, the Corporation completed the acquisition of the Italian confectionery business of Heinz Italia S.p.A. for approximately $130.0 million. The business is the leader in the Italian non-chocolate confectionery market and manufactures and distributes a wide range of confectionery products, including sugar candies and traditional products for special occasions such as nougat and gift boxes.

   In October 1993, the Corporation completed the purchase of the outstanding shares of Overspecht B.V. (OZF Jamin) for approximately $20.2 million plus the assumption of approximately $13.4 million in debt. OZF Jamin manufactures chocolate and non-chocolate confectionery products, cookies, biscuits and ice cream for distribution primarily to customers in the Netherlands and Belgium.

   In accordance with the purchase method of accounting, the purchase prices for the above acquisitions have been allocated to the underlying assets and liabilities at the date of acquisition based on their estimated respective fair values. These allocations and estimated fair values may be revised at a later date. Results subsequent to the dates of acquisition are included in the consolidated financial statements. Had the results of the acquisitions been included in consolidated financial results for each period presented, the effect would not have been material.

7. During the first half of 1993, the Corporation completed the early repayment of $95.2 million of long-term debt.

8. Effective January 1, 1993, the Corporation adopted Statements of Financial Accounting Standards No. 106 "Employers' Accounting for Post-retirement Benefits Other Than Pensions" and No. 109 "Accounting for Income Taxes" by means of catch-up adjustments. The net charge associated with these changes in accounting had the effect of decreasing net income by approximately $103.9 million, or $1.15 per share.

9. Reference is made to the Registrant's 1993 Annual Report on Form 10-K for more detailed financial statements and footnotes.

# Management's Discussion and Analysis

## Results of Operations - Second Quarter 1994 vs. Second Quarter 1993

Consolidated net sales for the second quarter rose from $618.4 million in 1993 to $676.0 million in 1994, an increase of 9%. The increase was mainly attributable to new confectionery products, international businesses acquired in the second half of 1993 and price increases on pasta products. Sales of existing confectionery and grocery brands were approximately even with those achieved during the comparable 1993 period.

The consolidated gross margin decreased from 41.2% in 1993 to 40.4% in 1994. The decrease was primarily the result of higher costs for certain major raw materials, particularly semolina, the generally lower margins associated with the recently acquired international businesses and higher depreciation expenses, partially offset by pasta selling price increases. Selling, marketing and administrative expenses increased $16.5 million or 8% due to expenses associated with 1993 business acquisitions and promotion expenses related to new product introductions.

Net interest expense increased by $2.3 million in the second quarter of 1994 compared with 1993, primarily as a result of higher short-term interest expense and lower interest income, partially offset by lower fixed interest expense. The 1994 increase in short-term interest expense reflected higher average short-term borrowing levels to finance 1993 acquisitions and the share repurchase program. Fixed interest expense was less than prior year due to the retirement of debt in 1993 and investment income was below prior year due to lower investment balances.

The second quarter effective income tax rate increased from 39.3% in 1993 to 39.8% in 1994. The higher rate in 1994 reflected the increase in the Federal statutory income tax rate as provided for in the Revenue Reconciliation Act of 1993, partially offset by changes in the mix of the Corporation's income among various tax jurisdictions.

## Results of Operations - First Six Months 1994 vs. First Six Months 1993

Consolidated net sales for the first six months of 1994 increased by $43.7 million or 3%, primarily as a result of new confectionery products, international businesses acquired in the second half of 1993 and pasta price increases. These increases were significantly offset by lower sales for existing confectionery and grocery brands caused by weak market conditions which began late in the first quarter of 1993 and continued into the first half of 1994, adverse weather and an earlier Easter in 1994, and the timing of certain year-end promotions which shifted some domestic confectionery sales into the fourth quarter of 1993.

The consolidated gross margin decreased from 42.3% in 1993 to 40.4% in 1994. The decrease was primarily the result of higher costs for certain major raw materials, including semolina, lower margins associated with the recently acquired international businesses, and higher expenses for depreciation and shipping, partially offset by pasta selling price increases. Selling, marketing and administrative expenses increased by 1%, primarily due to higher selling and administrative expenses associated with the 1993 business acquisitions and promotion expenses related to the introduction of new products. These increases were substantially offset by reduced levels of promotions and advertising for existing confectionery brands.

In March 1993, the Corporation recorded a pre-tax gain of $80.6 million on the sale of its 18.6% investment interest in Freia Marabou a.s (Freia) which increased net income by $40.6 million.

Net interest expense was $2.3 million above prior year as higher short-term interest expense and reduced interest income and capitalized interest were only partially offset by lower fixed interest expense. Short-term interest expense was above prior year as a result of increased borrowings to finance 1993 acquisitions and the share repurchase program. Fixed interest expense was less than prior year due to the retirement of long-term debt in 1993 and capitalized interest was below prior year reflecting the completion of significant long-term construction projects. Investment income was below prior year due to lower investment balances slightly offset by an increase in average investment income rates.

The effective income tax rate decreased from 42.9% in 1993 to 39.8% in 1994. The higher rate in 1993 was due primarily to the relatively high income taxes associated with the gain on the sale of the Freia investment. The 1994 effective income tax rate reflected the increase in the Federal statutory income tax rate as provided for in the Revenue Reconciliation Act of 1993.

Effective January 1, 1993, the Corporation adopted Statements of Financial Accounting Standards No. 106 "Employers' Accounting for Post-retirement Benefits Other Than Pensions" and No. 109 "Accounting for Income Taxes" by means of catch-up adjustments. The net charge associated with these changes in accounting had the effect of decreasing 1993 net income for the first six months by approximately $103.9 million, or $1.15 per share.

## Financial Condition

Historically, the Corporation's major source of financing has been cash generated from operations. Domestic seasonal working capital needs, which typically peak during the summer, generally have been met by issuing commercial paper. During the first six months of 1994, the Corporation's cash and cash equivalents decreased by $.3 million. Cash provided from operations and short-term borrowings were largely sufficient to finance capital additions of $79.4 million, pay cash dividends of $51.5 million and fund share repurchases of $31.3 million.

The ratio of current assets to current liabilities was 1.1:1 as of July 3, 1994 and December 31, 1993. The Corporation's capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 32% as of July 3, 1994, and 27% as of December 31, 1993. The increase primarily reflects higher levels of short-term borrowings to finance seasonal working capital needs and the share repurchase program. As of July 3, 1994, the Corporation had $15.7 million of cash and cash equivalents, $18.4 million of current portion of long-term debt and $485.3 million of short-term debt. Additionally, the Corporation had lines of credit with domestic and international commercial banks in the amount of approximately $600 million which could be borrowed directly or used to support the issuance of commercial paper.

As of July 3, 1994, $100 million of debt securities remained available for issuance under a Form S-3 Registration Statement which was declared effective in June 1990 and an additional $400 million of debt securities under a Form S-3 Registration Statement declared effective in November 1993. Proceeds from any offering of the $500 million of debt securities available under these shelf registrations may be used to reduce existing commercial paper borrowings, finance capital additions, and fund the share repurchase program and future business acquisitions.

As of July 3, 1994, the Corporation's principal capital commitments included manufacturing capacity expansion and modernization. The Corporation anticipates that capital expenditures will be in the range of $150 to $200 million per annum during the next several years as a result of the expansion of facilities to support new products and continued modernization of existing facilities.

During the second quarter of 1993, the Corporation's Board of Directors approved a share repurchase program to acquire from time to time through open market or privately negotiated transactions up to $200 million of Common Stock. A total of 3,254,639 shares have been repurchased under the program of which 2,990,639 shares were held as Treasury Stock as of July 3, 1994.

Part II

Items 1 through 5 have been omitted as not applicable.

Item 6 - Exhibits and Reports on Form 8-K

a) Exhibits

The following is attached and incorporated herein by reference:

Exhibit 12 - Statement showing computation of ratio of earnings to fixed charges for the six months ended July 3, 1994 and July 4, 1993.

b) Reports on Form 8-K

No reports on Form 8-K were filed during the three-month period ended July 3, 1994.

## SIGNATURES

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

HERSHEY FOODS CORPORATION
(Registrant)

Date July 29, 1994 /s/ William F. Christ

William F. Christ
Senior Vice President and
Chief Financial Officer

Date July 29, 1994 /s/ John B. Stiles

John B. Stiles
Vice President and
Corporate Controller

EXHIBIT INDEX

EXHIBIT 12

HERSHEY FOODS CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(in thousands of dollars except for ratios)
(Unaudited)

| | For the Six Months Ended July 3, 1994 | July 4, 1993 |
|---|---|---|
| Earnings: | | |
| Income before income taxes | $130,134 | $229,729(a) |
| Add (deduct): | | |
| Interest on indebtedness | 16,880 | 15,789 |
| Portion of rents representative of the interest factor (b) | 3,802 | 3,819 |
| Amortization of debt expense | 32 | 47 |
| Amortization of capitalized interest | 1,447 | 1,293 |
| Earnings as adjusted | $152,295 | $250,677 |
| Fixed Charges: | | |
| Interest on indebtedness | $ 16,880 | $ 15,789 |
| Portion of rents representative of the interest factor (b) | 3,802 | 3,819 |
| Amortization of debt expense | 32 | 47 |
| Capitalized interest | 1,968 | 2,468 |
| Total fixed charges | $ 22,682 | $ 22,123 |
| Ratio of earnings to fixed charges | 6.71 | 11.33 |

NOTES:

(a) Includes a gain of $80.6 million on the sale of the Corporation's 18.6% investment interest in Freia Marabou a.s.

(b) Portion of rents representative of the interest factor consists of one-third of rental expense for operating leases.