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 **September 30, 2001**

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

100 Crystal A Drive
Hershey, PA 17033

Registrant's telephone number: **717-534-6799**

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

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

Yes [X] No [ ]

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 - 105,182,056 shares, as of October 31, 2001. Class B Common Stock, $1 par value - 30,433,808 shares, as of October 31, 2001

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

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

	For the Three Months Ended	
	September 30, 2001	October 1, 2000
Net Sales	$ 1,304,184	$ 1,196,755
Costs and Expenses:		
Cost of sales	752,575	696,431
Selling, marketing and administrative	342,622	303,688
Gain on sale of business	(19,237)	--
Total costs and expenses	1,075,960	1,000,119
Income before Interest and Income Taxes	228,224	196,636
Interest expense, net	18,147	21,152
Income before Income Taxes	210,077	175,484

Provision for income taxes	89,315	68,079
Net Income	$ 120,762	$ 107,405
Net Income Per Share-Basic	$ .89	$ .78
Net Income Per Share-Diluted	$ .88	$ .78
Average Shares Outstanding-Basic	135,869	136,836
Average Shares Outstanding-Diluted	137,213	137,690
Cash Dividends Paid per Share:		
Common Stock	$ .3025	$ .2800
Class B Common Stock	$ .2725	$ .2525

The accompanying notes are an integral part of these statements.

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

	For the Nine Months Ended	
	September 30, 2001	**October 1, 2000**
Net Sales	$ 3,283,324	$ 3,026,074
Costs and Expenses:		
Cost of sales	1,906,719	1,803,598
Selling, marketing and administrative	923,911	808,210
Gain on sale of business	(19,237)	--
Total costs and expenses	2,811,393	2,611,808
Income before Interest and Income Taxes	471,931	414,266
Interest expense, net	52,371	56,525
Income before Income Taxes	419,560	357,741
Provision for income taxes	167,453	139,160
Net Income	$ 252,107	$ 218,581
Net Income Per Share-Basic	$ 1.85	$ 1.59
Net Income Per Share-Diluted	$ 1.83	$ 1.58
Average Shares Outstanding-Basic	136,343	137,568
Average Shares Outstanding-Diluted	137,768	138,480
Cash Dividends Paid per Share:		
Common Stock	$ .8625	$ .8000
Class B Common Stock	$ .7775	$ .7225

The accompanying notes are an integral part of these statements.

HERSHEY FOODS CORPORATION
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2001 AND DECEMBER 31, 2000
(in thousands of dollars)

ASSETS	2001	2000
Current Assets:		
Cash and cash equivalents	$ 49,168	$ 31,969
Accounts receivable - trade	548,409	379,680
Inventories	725,703	605,173
Deferred income taxes	68,950	76,136
Prepaid expenses and other	75,985	202,390
Total current assets	1,468,215	1,295,348
Property, Plant and Equipment, at cost	2,858,974	2,764,845
Less-accumulated depreciation and amortization	(1,282,028)	(1,179,457)
Net property, plant and equipment	1,576,946	1,585,388
Intangibles Resulting from Business Acquisitions, net	438,875	474,448
Other Assets	127,303	92,580
Total assets	$ 3,611,339	$ 3,447,764
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 162,998	$ 149,232
Accrued liabilities	365,238	358,067
Accrued income taxes	94,022	1,479
Short-term debt	237,203	257,594
Current portion of long-term debt	1,095	529
Total current liabilities	860,556	766,901
Long-term Debt	876,981	877,654
Other Long-term Liabilities	332,602	327,674
Deferred Income Taxes	299,590	300,499
Total liabilities	2,369,729	2,272,728
Stockholders' Equity:		
Preferred Stock, shares issued: none in 2001 and 2000	---	---
Common Stock, shares issued: 149,515,564 in 2001 and 149,509,014 in 2000	149,515	149,508
Class B Common Stock, shares issued: 30,435,308 in 2001 and 30,441,858 in 2000	30,435	30,442
Additional paid-in capital	5,759	13,124
Unearned ESOP compensation	(16,766)	(19,161)
Retained earnings	2,840,437	2,702,927
Treasury-Common Stock shares at cost: 44,420,608 in 2001 and 43,669,284 in 2000	(1,693,706)	(1,645,088)
Accumulated other comprehensive loss	(74,064)	(56,716)
Total stockholders' equity	1,241,610	1,175,036
Total liabilities and stockholders' equity	$ 3,611,339	$ 3,447,764

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

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

	For the Nine Months Ended	
	September 30, 2001	October 1, 2000

Cash Flows Provided from (Used by) Operating Activities		
Net Income	$ 252,107	$ 218,581
Adjustments to Reconcile Net Income to Net Cash Provided from Operations:		
Depreciation and amortization	141,699	131,122
Deferred income taxes	10,415	(21,883)
Gain on sale of business, net of tax of $18,134	(1,103)	--
Changes in assets and liabilities, net of effects from business acquisition and divestiture:		
Accounts receivable - trade	(168,729)	(212,502)
Inventories	(127,659)	(47,653)
Accounts payable	13,766	(881)
Other assets and liabilities	170,206	(59,228)
Net Cash Flows Provided from Operating Activities	290,702	7,556
Cash Flows Provided from (Used by) Investing Activities		
Capital additions	(114,608)	(100,627)
Capitalized software additions	(6,003)	(4,204)
Business acquisition	(17,143)	--
Proceeds from divestiture	59,900	--
Other, net	9,704	(2,402)
Net Cash Flows (Used by) Investing Activities	(68,150)	(107,233)
Cash Flows Provided from (Used by) Financing Activities		
Net (decrease) increase in short-term debt	(20,391)	248,846
Long-term borrowings	354	144
Repayment of long-term debt	(578)	(2,517)
Cash dividends paid	(114,597)	(107,514)
Exercise of stock options	21,509	5,579
Incentive plan transactions	(51,328)	(18,698)
Repurchase of Common Stock	(40,322)	(99,931)
Net Cash Flows (Used by) Provided from Financing Activities	(205,353)	25,909
Increase (Decrease) in Cash and Cash Equivalents	17,199	(73,768)
Cash and Cash Equivalents, beginning of period	31,969	118,078
Cash and Cash Equivalents, end of period	$ 49,168	$ 44,310

Interest Paid	$ 63,105	$ 69,278
Income Taxes Paid	$ 53,818	$ 209,456

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Hershey Foods Corporation and its subsidiaries (the “Corporation”) after elimination of intercompany accounts and transactions. These statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For more information, refer to the consolidated financial statements and footnotes included in the Corporation’s 2000 Annual Report on Form 10-K.

2. BUSINESS ACQUISITION AND DIVESTITURE

In July 2001, the Corporation’s Brazilian subsidiary, Hershey do Brasil, acquired the chocolate and confectionery business of Visagis for $17.1 million. This business had sales of approximately $20 million in 2000. Included in the acquisition are the *IO-IO* brand of hazelnut crème items and the chocolate and confectionery products sold under the *Visconti* brand. Also included in the purchase are a manufacturing plant and confectionery equipment in Sao Roque, Brazil.

In September 2001, the Corporation completed the sale of the *Luden's* throat drops business to Pharmacia Consumer Healthcare, a unit of Pharmacia Corporation. Included in the sale are the trademarks and manufacturing equipment for the throat drops business. Under a supply agreement with Pharmacia, the Corporation will manufacture *Luden's* throat drops for up to 19 months. Under a separate services agreement, the Corporation will continue to sell, warehouse and distribute *Luden's* throat drops through March 2002. In the third quarter of 2001, the Corporation received cash proceeds of $59.9 million and recorded a gain of $19.2 million before tax, $1.1 million or $.01 per share - diluted after tax, as a result of the transaction. A higher gain for tax purposes reflected the low tax basis of the goodwill, property, plant and equipment, and other assets included in the sale, resulting in taxes on the gain of $18.1 million.

3. **INTEREST EXPENSE**

Interest expense, net consisted of the following:

	For the Nine Months Ended	
	September 30, 2001	October 1, 2000
	(in thousands of dollars)	
Interest expense	$ 55,666	$ 59,973
Interest income	(1,862)	(3,428)
Capitalized interest	(1,433)	(20)
Interest expense, net	$ 52,371	$ 56,525

4. **NET INCOME PER SHARE**

A total of 44,420,608 shares were held as Treasury Stock as of September 30, 2001.

In accordance with Statement of Financial Accounting Standards No. 128, *"Earnings Per Share,"* Basic and Diluted Earnings per Share are computed based on the weighted-average number of shares of the Common Stock and the Class B Stock outstanding as follows:

	For the Three Months Ended	
	September 30, 2001	October 1, 2000
	(in thousands except per share amounts)	
Net income	$ 120,762	$ 107,405
Weighted-average shares-basic	135,869	136,836
Effect of dilutive securities:		
Employee stock options	1,285	841
Performance and restricted stock units	59	13
Weighted-average shares - diluted	137,213	137,690
Net income per share - basic	$ .89	$ .78
Net income per share-diluted	$ .88	$ .78

Employee stock options for 1,957,150 shares and 1,798,700 shares were anti-dilutive and were excluded from the earnings per share calculation for the three months ended September 30, 2001 and October 1, 2000, respectively.

	For the Nine Months Ended	
	September 30, 2001	October 1, 2000
	(in thousands except per share amounts)	
Net income	$ 252,107	$ 218,581
Weighted-average shares-basic	136,343	137,568
Effect of dilutive securities:		
Employee stock options	1,366	899
Performance and restricted stock units	59	13

Weighted-average shares - diluted	137,768	138,480
Net income per share - basic	$ 1.85	$ 1.59
Net income per share-diluted	$ 1.83	$ 1.58

Employee stock options for 1,963,950 shares and 5,534,550 shares were anti-dilutive and were excluded from the earnings per share calculation for the nine months ended September 30, 2001 and October 1, 2000, respectively.

5. **DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, " *Accounting for Derivative Instruments and Hedging Activities*" (SFAS No. 133). Subsequently, the FASB issued Statement No. 137, "*Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, an amendment of FASB Statement No. 133* " and Statement No. 138, " *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133.*" SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivatives fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, to the extent effective, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

The Corporation adopted SFAS No. 133 as of January 1, 2001. The adoption of SFAS No. 133 is not expected to have a significant impact on the Corporation's results of operations and financial position. However, as discussed in the following paragraphs, SFAS No. 133 could increase volatility in other comprehensive income and involve certain changes in the Corporation's business practices.

SFAS No. 133, as amended, provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the same period or periods during which the transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings. All derivative instruments currently utilized by the Corporation are designated as cash flow hedges.

Objectives, Strategies and Accounting Policies Associated with Derivative Instruments

The Corporation utilizes certain derivative instruments, including interest rate swap agreements, foreign currency forward exchange contracts and commodity futures contracts, to manage variability in cash flows associated with interest rate, currency exchange rate and commodity market price risk exposures. The interest rate swaps and foreign currency contracts are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. Commodity futures contracts are entered into for varying periods and are intended and effective as hedges of market price risks associated with the purchase of raw materials for anticipated manufacturing requirements. If it is probable that hedged forecasted transactions will not occur either by the end of the originally specified time period or within an additional two-month period of time, derivative gains and losses reported in Accumulated Other Comprehensive Loss on the Consolidated Balance Sheet are immediately reclassified into earnings. Gains and losses on terminated derivatives designated as hedges are accounted for as part of the originally hedged transaction. Gains and losses on derivatives designated as hedges of items that mature or are sold or terminated, are recognized in income in the same period as the originally hedged transaction was anticipated to affect earnings. The Corporation utilizes derivative instruments as cash flow hedges and does not hold or issue derivative instruments for trading purposes. In entering into these contracts, the Corporation has assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. The Corporation does not expect any losses as a result of counterparty defaults.

Interest Rate Swap Agreements

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements. In February 2001, the Corporation entered into interest rate swap agreements to effectively convert interest-rate-contingent rental payments on certain operating leases from a variable to a fixed rate. Rental payments on operating leases associated with the financing of construction of a warehouse and distribution facility near Hershey, Pennsylvania for $61.7 million and the financing of the purchase of a warehouse and distribution facility near Atlanta, Georgia for $18.2 million are variable based on the London Interbank Offered Rate (LIBOR). Such contingent operating lease rental payments are forecasted transactions as defined by SFAS No. 133, as amended. The interest rate swap

agreements effectively convert the interest-rate-contingent rental payments on the operating leases from LIBOR to a fixed rate of 6.1%. The interest rate swap agreements qualify as cash flow hedges and the notional amounts, interest rates and terms of the swap agreements are consistent with the underlying operating lease agreements they are intended to hedge and, therefore, there is no hedge ineffectiveness. Gains or losses on the interest rate swap agreements are included in other comprehensive income and are recognized in cost of sales as part of shipping and distribution expense in the same period as the hedged rental payments affect earnings.

The fair value of the interest rate swap agreements was determined based upon the quoted market price for the same or similar financial instruments and was included on the Consolidated Balance Sheet as Other Long-term Liabilities, with the offset reflected in Accumulated Other Comprehensive Loss, net of income taxes. The Corporation's risk related to the interest rate swap agreements is limited to the cost of replacing the agreements at prevailing market rates.

Foreign Exchange Forward Contracts

The Corporation enters into foreign exchange forward contracts to hedge transactions primarily related to firm commitments to purchase equipment, certain raw materials and finished goods denominated in foreign currencies, and to hedge payment of intercompany transactions with its non-domestic subsidiaries. These contracts reduce currency risk from exchange rate movements. Foreign currency price risks are hedged generally for periods from 3 to 24 months.

Foreign exchange forward contracts are intended and effective as hedges of firm, identifiable, foreign currency commitments. Since there is a direct relationship between the foreign currency derivatives and the foreign currency denomination of the transactions, foreign currency derivatives are highly effective in hedging cash flows related to transactions denominated in the corresponding foreign currencies. These contracts meet the criteria for cash flow hedge accounting treatment and, accordingly, gains or losses are included in other comprehensive income and are recognized in cost of sales or selling, marketing and administrative expense in the same period that the hedged items affect earnings.

The fair value of foreign exchange forward contracts was estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences, and was included on the Consolidated Balance Sheet as Accrued Liabilities with the offset reflected in Accumulated Other Comprehensive Loss, net of income taxes.

Commodities Futures Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas and certain dairy products for anticipated manufacturing requirements, the Corporation enters into commodities futures contracts as deemed appropriate to reduce the effect of price fluctuations. Commodity price risks are hedged generally for periods from 3 to 24 months. Commodities futures contracts meet the hedge criteria and are accounted for as cash flow hedges. Accordingly, gains and losses are included in other comprehensive income and are recognized ratably in cost of sales in the same period that the hedged raw material manufacturing requirements are recorded in cost of sales.

In order to qualify as a hedge of commodity price risk, it must be demonstrated that the changes in fair value of the commodities futures contracts are highly effective in hedging price risks associated with commodity purchases for manufacturing requirements. The assessment of hedge effectiveness for commodities futures is performed on a quarterly basis by calculating the change in switch values relative to open commodities futures contracts being held and the number of futures contracts needed to price raw material purchases for anticipated manufacturing requirements. Effectiveness is also monitored by tracking changes in basis differentials as discussed below. The prices of commodities futures contracts reflect delivery to the same locations where the Corporation takes delivery of the physical commodities and, therefore, there is no ineffectiveness resulting from differences in location between the derivative and the hedged item. Commodities futures contracts have been deemed to be highly effective in hedging price risks associated with corresponding raw material purchases for manufacturing requirements.

Because of the rollover strategy used for commodities futures contracts, which is required by futures market conditions, some ineffectiveness may result in hedging forecasted manufacturing requirements as futures contracts are switched from nearby contract positions to contract positions which are required to fix the price of raw material purchases for manufacturing requirements. Hedge ineffectiveness may also result from variability in basis differentials associated with the purchase of raw materials for manufacturing requirements. Hedge ineffectiveness is measured on a quarterly basis and the ineffective portion of gains or losses on commodities futures is recorded currently in cost of sales in accordance with SFAS No.133, as amended.

Exchange traded futures contracts are used to fix the price of physical forward purchase contracts. Cash transfers reflecting changes in the value of futures contracts are made on a daily basis and are included in Accumulated Other Comprehensive Loss, net of income taxes, on the Consolidated Balance Sheet. Such cash transfers will be offset by higher or lower cash requirements for payment of invoice prices of raw materials and energy requirements in the future. Futures contracts being

held in excess of the amount required to fix the price of unpriced physical forward contracts are effective as hedges of anticipated manufacturing requirements for each commodity. Physical commodity forward purchase contracts meet the SFAS No. 133 definition of "normal purchases and sales" and, therefore, are not considered derivative instruments.

6. COMPREHENSIVE INCOME

Comprehensive income consisted of the following:

	For the Three Months Ended	
	September 30, 2001	October 1, 2000
	(in thousands of dollars)	
Net income	$ 120,762	$ 107,405
Other comprehensive income (loss):		
Foreign currency translation adjustments	(10,200)	(670)
Gains on cash flow hedging derivatives, net of a tax provision of $5,143	8,424	---
Add: Reclassification adjustments, net of a tax provision of $3,133	5,267	---
Other comprehensive income (loss)	3,491	(670)
Comprehensive income	$ 124,253	$ 106,735

	For the Nine Months Ended	
	September 30, 2001	October 1, 2000
	(in thousands of dollars)	
Net income	$ 252,107	$ 218,581
Other comprehensive income (loss):		
Foreign currency translation adjustments	(10,391)	(5,749)
Gains on cash flow hedging derivatives, net of a tax provision of $29,300	49,253	---
Add: Reclassification adjustments, net of a tax provision of $8,318	13,982	---
Other comprehensive income (loss)	52,844	(5,749)
Comprehensive income	$ 304,951	$ 212,832

Reclassification adjustments from accumulated other comprehensive income to income, for gains or losses on cash flow hedging derivatives, were reflected in cost of sales. Gains on cash flow hedging derivatives recognized in cost of sales as a result of hedge ineffectiveness were approximately $1.0 million before tax in the third quarter with net gains of $.8 million recognized in cost of sales for the nine months ended September 30, 2001. No gains or losses were reclassified immediately from accumulated other comprehensive income into income as a result of the discontinuance of a hedge because it became probable that a hedged forecasted transaction would not occur. There were no components of gains or losses on cash flow hedging derivatives that were recognized immediately in income because such components were excluded from the assessment of hedge effectiveness.

On the Consolidated Balance Sheet as of September 30, 2001, Accumulated Other Comprehensive Loss of $74.1 million, net of income taxes, principally reflected foreign currency translation adjustments. The amount of accumulated other comprehensive losses from cash flow hedging derivatives as of September 30, 2001 was $7.0 million, net of income taxes. As of September 30, 2001, the amount of net losses on cash flow hedging derivatives, including foreign exchange forward contracts, interest rate swap agreements and commodities futures contracts, expected to be reclassified into earnings in the next twelve months was approximately $6.3 million after tax.

7. **INVENTORIES**

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:

	September 30, 2001	December 31, 2000
	(in thousands of dollars)	
Raw materials	$ 284,777	$ 263,658
Goods in process	57,139	47,866
Finished goods	413,022	338,749
Inventories at FIFO	754,938	650,273
Adjustment to LIFO	(29,235)	(45,100)
Total inventories	$ 725,703	$ 605,173

8. **LONG-TERM DEBT**

In August 1997, the Corporation filed a Form S-3 Registration Statement under which it could offer, on a delayed or continuous basis, up to $500 million of additional debt securities. As of September 30, 2001, $250 million of debt securities remained available for issuance under the August 1997 Registration Statement.

9. **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 September 30, 2001 and December 31, 2000, because of the relatively short maturity of these instruments. The carrying value of long-term debt, including the current portion, was $878.1 million as of September 30, 2001, compared to a fair value of $962.3 million, based on quoted market prices for the same or similar debt issues.

As of September 30, 2001, the Corporation had foreign exchange forward contracts maturing primarily in 2001 and 2002 to purchase $41.8 million in foreign currency, primarily British sterling and euros, and to sell $8.6 million in foreign currency, primarily Japanese yen, at contracted forward rates.

The fair value of foreign exchange forward contracts is estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences. As of September 30, 2001, the fair value of foreign exchange forward contracts approximated the contract value. The Corporation does not hold or issue financial instruments for trading purposes.

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements. In February 2001, the Corporation entered into interest rate swap agreements that effectively convert interest-rate-contingent rental payments on certain operating leases from a variable to a fixed rate of 6.1%.

Any interest rate differential on interest rate swap agreements is recognized as an adjustment to interest expense over the term of each agreement. As of September 30, 2001, the fair value of interest rate swap agreements approximated the contract value. The Corporation's risk related to interest rate swap agreements is limited to the cost of replacing such agreements at prevailing market rates.

10. **PENDING ACCOUNTING PRONOUNCEMENTS**

The Emerging Issues Task Force (EITF) of the FASB recently addressed several issues related to the income statement classification of certain sales incentives and marketing promotion programs. Consensuses reached on EITF Issue No. 00-14, "*Accounting for Coupons, Rebates and Discounts*," and EITF Issue No. 00-25, " *Vendor Income Statement Characterization of Consideration from a Vendor to a Retailer*," require that certain consumer and trade promotion expenses, such as consumer coupon redemption expense, off-invoice allowances and various marketing performance funds currently reported in selling, marketing, and administrative expense be recorded as a reduction of net sales. These reclassifications are effective for the quarter ending March 31, 2002. On an annualized basis, these costs and allowances may range between $400 million and $425 million. These changes will not affect the Corporation's

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financial position or net income. Upon adoption, prior period amounts will be reclassified to conform with the new

requirements.

In June 2001, the FASB issued Statements of Financial Accounting Standards No. 141, "*Business Combinations*" (SFAS No. 141), and No. 142, "*Goodwill and Other Intangible Assets*" (SFAS No. 142). SFAS No. 141 changes the accounting for business combinations, requiring that all business combinations be accounted for using the purchase method and that intangible assets be recognized as assets apart from goodwill if they arise from contractual or other legal rights, or if they are separable or capable of being separated from the acquired entity and sold, transferred, licensed, rented, or exchanged. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 specifies the financial accounting and reporting for acquired goodwill and other intangible assets. Goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001.

SFAS No. 142 requires that the useful lives of intangible assets acquired on or before June 30, 2001 be reassessed and the remaining amortization periods adjusted accordingly. Previously recognized intangible assets deemed to have indefinite lives shall be tested for impairment. Goodwill recognized on or before June 30, 2001, shall be assigned to one or more reporting units and shall be tested for impairment as of the beginning of the fiscal year in which SFAS No.142 is initially applied in its entirety.

The Corporation has not fully assessed the potential impact of the adoption of SFAS No. 142 which is effective for the Corporation as of January 1, 2002. The reassessment of intangible assets must be completed during the first quarter of 2002 and the assignment of goodwill to reporting units, along with completion of the first step of the transitional goodwill impairment tests, must be completed during the first six months of 2002. The Corporation anticipates that the majority of the intangible assets and goodwill recognized prior to July 1, 2001 will no longer be amortized effective January 1, 2002. Total amortization of intangible assets and goodwill for the year ended December 31, 2000, was $14.7 million.

11. **SHARE REPURCHASES**

In October 1999, the Corporation's Board of Directors approved a share repurchase program authorizing the repurchase of up to $200 million of the Corporation's Common Stock. Under this program, a total of 2,388,586 shares of Common Stock was purchased to date. As of September 30, 2001, a total of 44,420,608 shares were held as Treasury Stock and $84.2 million remained available for repurchases of Common Stock under the repurchase program.

12. **SUBSEQUENT EVENT**

On October 24, 2001, the Corporation announced initiatives to enhance its future operating performance by focusing on: profitable, organic growth; ongoing margin improvement; superior asset management; and a more streamlined, results-driven organization. Business realignment charges to support the initiatives totaling $275 million pre-tax, or $1.24 per share - diluted, will be recorded in the fourth quarter of 2001 and in 2002. The charges will include restructuring charges of $218 million or $.99 per share - diluted and operating charges of $57 million or $.25 per share - diluted. $1.08 per share - diluted is expected to be recorded in the fourth quarter of 2001 and $.16 per share - diluted is expected to be recorded in 2002. These business realignment initiatives will generate ongoing annual savings of $60 million to $65 million when fully implemented, which will be reinvested to create enhanced marketing and selling capabilities. Cash flows for the business will immediately increase as a result of these initiatives.

The restructuring charges will include costs related to the elimination of certain non-strategic brands, the elimination of underutilized capacity through the closure of three manufacturing facilities and one distribution center, realignment of the sales organization, a voluntary workforce reduction program, and outsourcing the production of cocoa powder. The operating charges will include costs related to selling off and reducing raw material inventories, principally cocoa beans, no longer required to support operations and write-downs of inventory related to products to be discontinued.

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

Results of Operations - Third Quarter 2001 vs. Third Quarter 2000

Consolidated net sales for the third quarter increased from $1,196.8 million in 2000 to $1,304.2 million in 2001, an increase of 9% from the prior year. The higher sales primarily reflected incremental sales from the newly acquired mint and gum business, an increase in sales of base confectionery and grocery products in North America, incremental sales from the introduction of new confectionery products and selling price increases on certain packaged candy products. These incremental sales were offset partially by the impact of unfavorable foreign currency exchange rates, higher returns, discounts, and allowances, and the divestiture of the *Luden's* throat drops business in early September.

The consolidated gross margin increased from 41.8% in 2000 to 42.3% in 2001. The increase in gross margin was achieved

via improved supply chain efficiencies including decreased costs for the disposal of aged inventory and reduced costs for freight, distribution and warehousing. The profitability of the mint and gum business also contributed to the higher gross margin in 2001. The impact of these items was partially offset by higher manufacturing costs, primarily related to higher labor rates and employee benefits costs, as well as start-up costs associated with the installation of new manufacturing equipment, and higher returns, discounts, and allowances. Selling, marketing and administrative expenses increased by 13% in 2001, primarily reflecting selling, marketing and administrative expenditures for the mint and gum business, increased administrative expenses primarily resulting from higher staffing levels to support sales activity in North American and international businesses, and increased marketing expenditures associated with the introduction of new confectionery products.

Net interest expense in the third quarter of 2001 was $3.0 million less than the comparable period of 2000, reflecting a decrease in short-term interest expense due to a decrease in the average short-term borrowing rates and reduced average short-term borrowings.

Net income for the third quarter was $120.8 million compared to $107.4 million for the third quarter of 2000, and net income per share - diluted was $.88 per share compared to $.78 per share in the prior year. In September 2001, the Corporation recorded a gain of $19.2 million, $1.1 million or $0.01 per share-diluted after-tax, on the sale of its *Luden's* throat drops business.

Results of Operations - First Nine Months 2001 vs. First Nine Months 2000

Consolidated net sales for the first nine months increased from $3,026.1 million in 2000 to $3,283.3 million in 2001, an increase of 9% from the prior year. The higher sales primarily reflected incremental sales from the newly acquired mint and gum business and from the introduction of new confectionery products, as well as an increase in sales of base confectionery and grocery products in North America, and increased international exports. These incremental sales were offset partially by the impact of unfavorable foreign currency exchange rates, the divestiture of the *Luden's* throat drops business, and higher returns, discounts, and allowances.

The consolidated gross margin increased from 40.4% in 2000 to 41.9% in 2001. The increase in gross margin resulted from decreased costs for freight, distribution and warehousing, and certain major raw materials, primarily cocoa, as well as improved supply chain efficiencies including decreased costs for the disposal of aged inventory and obsolete packaging. The profitability of the mint and gum business also contributed to the higher gross margin in 2001. The impact of these items was partially offset by higher manufacturing costs, primarily related to higher labor rates and employee benefits costs, as well as start-up costs associated with the installation of new manufacturing equipment. Selling, marketing and administrative expenses increased by 14% in 2001, primarily reflecting selling, marketing and administrative expenditures for the mint and gum business, increased administrative expenses primarily resulting from higher staffing levels to support sales activity in North American and international businesses, and increased marketing expenditures associated with the introduction of new confectionery products. Selling, marketing and administrative costs in 2000 included a one-time gain of $7.3 million arising from the sale of certain corporate aircraft.

Net interest expense in the first nine months of 2001 was $4.2 million less than the comparable period of 2000, reflecting a decrease in short-term interest expense due to a decrease in average short-term borrowing rates and reduced average short-term borrowings.

Net income for the first nine months was $252.1 million compared to $218.6 million in 2000, and net income per share - diluted was $1.83 per share compared to $1.58 per share in the prior year. In September 2001, the Corporation recorded a

gain of $19.2 million, $1.1 million or $0.01 per share - diluted after-tax, on the sale of its *Luden's* throat drops business. A higher gain for tax purposes reflected the low tax basis of the goodwill, property, plant and equipment, and other assets included in the sale, resulting in taxes on the gain of $18.1 million. Prior year net income included an after-tax gain of $4.5 million, or $.03 per share - diluted, on the sale of certain corporate aircraft.

Liquidity and Capital Resources

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 months, generally have been met by issuing commercial paper. During the first nine months of 2001, the Corporation's cash and cash equivalents increased by $17.2 million. Cash provided from operating activities was sufficient to finance capital additions and capitalized software additions of $120.6 million, pay cash dividends of $114.6 million, and finance the repurchase of $40.3 million of the Corporation's Common Stock. Changes in cash flows provided from (used by) inventories and other assets and liabilities exclude the impact of adjustments required by the adoption of SFAS No. 133. Cash provided from other assets and liabilities of $170.2 million primarily reflected commodities transactions and increases in accrued income taxes and accrued liabilities for payroll and employee benefits, partially offset by a $75.0 million contribution to the Corporation's domestic pension plans.

Investing activities included capital additions, a business acquisition, and a business divestiture. In July 2001, the Corporation's Brazilian subsidiary, Hershey do Brasil, acquired the chocolate and confectionery business of Visagis for $17.1 million. In September 2001, the *Luden's* throat drops business was sold for $59.9 million in cash.

The ratio of current assets to current liabilities was 1.7:1 as of September 30, 2001 and December 31, 2000. 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 47% as of September 30, 2001, and 49% as of December 31, 2000.

Subsequent Event

On October 24, 2001, the Corporation announced initiatives to enhance its future operating performance by focusing on: profitable, organic growth; ongoing margin improvement; superior asset management; and a more streamlined, results-driven organization. Business realignment charges to support the initiatives totaling $275 million pre-tax, or $1.24 per share - diluted, will be recorded in the fourth quarter of 2001 and in 2002. The charges will include restructuring charges of $218 million or $.99 per share - diluted and operating charges of $57 million or $.25 per share - diluted. $1.08 per share - diluted is expected to be recorded in the fourth quarter of 2001 and $.16 per share - diluted is expected to be recorded in 2002. These business realignment initiatives will generate ongoing annual savings of $60 million to $65 million when fully implemented, which will be reinvested to create enhanced marketing and selling capabilities. Cash flows for the business will immediately increase as a result of these initiatives.

The restructuring charges will include costs related to the elimination of certain non-strategic brands, the elimination of underutilized capacity through the closure of three manufacturing facilities and one distribution center, realignment of the sales organization, a voluntary workforce reduction program, and outsourcing the production of cocoa powder. The operating charges will include costs related to selling off and reducing raw material inventories, principally cocoa beans, no longer required to support operations and write-downs of inventory related to products to be discontinued.

Safe Harbor Statement

The nature of the Corporation's operations and the environment in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In connection with the “safe harbor ” provisions of the Private Securities Litigation Reform Act of 1995, the Corporation notes the following factors which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated,” and “potential,” among others. Factors which could cause results to differ include, but are not limited to: changes in the confectionery and grocery business environment, including actions of competitors and changes in consumer preferences; changes in governmental laws and regulations, including taxes; market demand for new and existing products; changes in raw material and other costs; the Corporation's ability to implement improvements and to reduce costs associated with the Corporation's distribution operations; pension cost factors, such as actuarial assumptions and employee retirement decisions; and the Corporation's ability to sell certain assets at targeted values.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The potential loss in fair value of foreign exchange forward contracts and interest rate swap agreements resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of September 30, 2001. The market risk resulting from a hypothetical adverse market price movement of ten percent associated with the estimated average fair value of net commodity positions decreased from $3.0 million as of December 31, 2000, to ($2.5) million as of September 30, 2001. Market risk represents 10% of the estimated average fair value of net commodity positions at four dates prior to the end of each period.

PART II - OTHER INFORMATION

Items 2 through 5 have been omitted as not applicable.

Item 1 - Legal Proceedings

Effective October 1, 2001, the Corporation negotiated a settlement with the Internal Revenue Service (IRS) of Notices of Proposed Deficiency associated with its Corporate Owned Life Insurance (COLI) program. The resulting Closing Agreement with the IRS limited the COLI interest expense deductions for all applicable tax years and resulted in the surrender of all insurance policies, thereby ending the COLI program. The settlement is a complete resolution of all federal and state tax aspects of this program. This resolution will not impact the Corporation's effective income tax rate. The Corporation has no other material pending legal proceedings, other than ordinary routine litigation incidental to its business.

Item 6 - Exhibits and Reports on Form 8-K

a) Exhibits

The following items are attached and incorporated herein by reference:

Exhibit 12 - Statement showing computation of ratio of earnings to fixed charges for the nine months ended September 30, 2001 and October 1, 2000.

b) Reports on Form 8-K

No reports on Form 8-K were filed during the three-month period ended September 30, 2001. However, a report on Form 8-K was furnished on October 24, 2001, in which the Corporation announced initiatives to enhance its future operating performance and business realignment charges to support the initiatives.

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 November 7, 2001

/s/ Frank Cerminara
Frank Cerminara
Senior Vice President and
Chief Financial Officer

Date November 7, 2001

/s/ David W.Tacka
David W. Tacka
Vice President, Corporate Controller and
Chief Accounting Officer

EXHIBIT INDEX

Exhibit 12 Computation of Ratio of Earnings to Fixed Charges

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

	For the Nine Months Ended	
	September 30, 2001	October 1, 2000
Earnings:		
Income before income taxes	$ 419,560	$ 357,741
Add (deduct):		
Interest on indebtedness	54,233	59,953
Portion of rents representative of the interest factor (a)	11,506	9,630
Amortization of debt expense	348	367
Amortization of capitalized interest	3,165	3,178
Earnings as adjusted	$ 488,812	$ 430,869
Fixed Charges:		
Interest on indebtedness	$ 54,233	$ 59,953
Portion of rents representative of the interest factor (a)	11,506	9,630
Amortization of debt expense	348	367
Capitalized interest	1,433	20
Total fixed charges	$ 67,520	$ 69,970
Ratio of earnings to fixed charges	7.24	6.16

NOTE:

(a) Portion of rents representative of the interest factor consists of all rental expense pertaining to operating leases used to finance the purchase or construction of warehouse and distribution facilities, and one-third of rental expense for other operating leases.