

HERSHEY CO  
Form 10-Q  
November 07, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

THE HERSHEY COMPANY

(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 No.)

100 Crystal A Drive, Hershey, PA

17033

(Address of principal executive offices)

(Zip Code)

717-534-4200

(Registrant's telephone number, including area code)

Not Applicable

(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  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 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

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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 – 162,571,954 shares, as of October 19, 2012. Class B Common Stock, \$1 par value – 60,629,917 shares, as of October 19, 2012.

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THE HERSHEY COMPANY  
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## PART I - FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements (Unaudited)

## THE HERSHEY COMPANY

## CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)

	For the Three Months Ended	
	September 30, 2012	October 2, 2011
Net Sales	\$ 1,746,709	\$ 1,624,249
Costs and Expenses:		
Cost of Sales	1,003,952	944,068
Selling, marketing and administrative	420,972	356,878
Business realignment and impairment charges, net	20,055	2,187
Total costs and expenses	1,444,979	1,303,133
Income before Interest and Income Taxes	301,730	321,116
Interest expense, net	24,535	23,041
Income before Income Taxes	277,195	298,075
Provision for income taxes	100,479	101,380
Net Income	\$ 176,716	\$ 196,695
Earnings Per Share - Basic - Class B Common Stock	\$.73	\$.81
Earnings Per Share - Diluted - Class B Common Stock	\$.73	\$.80
Earnings Per Share - Basic - Common Stock	\$.80	\$.89
Earnings Per Share - Diluted - Common Stock	\$.77	\$.86
Average Shares Outstanding - Basic - Common Stock	164,686	165,917
Average Shares Outstanding - Basic - Class B Common Stock	60,630	60,632
Average Shares Outstanding - Diluted	228,608	229,849
Cash Dividends Paid Per Share:		
Common Stock	\$.380	\$.3450
Class B Common Stock	\$.344	\$.3125

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

THE HERSHEY COMPANY  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of dollars)

	For the Three Months Ended	
	September 30, 2012	October 2, 2011
Net Income	\$176,716	\$196,695
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	10,815	(37,826 )
Pension and post-retirement benefit plans	(853	) 5,185
Cash flow hedges:		
Gains (losses) on cash flow hedging derivatives	35,682	(46,772 )
Reclassification adjustments	14,644	(7,025 )
Total other comprehensive income (loss), net of tax	60,288	(86,438 )
Comprehensive Income	\$237,004	\$110,257

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

THE HERSHEY COMPANY  
CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)

	For the Nine Months Ended	
	September 30, 2012	October 2, 2011
Net Sales	\$4,893,217	\$4,513,643
Costs and Expenses:		
Cost of Sales	2,788,543	2,612,957
Selling, marketing and administrative	1,217,939	1,080,594
Business realignment and impairment charges (credits), net	28,204	(5,927)
Total costs and expenses	4,034,686	3,687,624
Income before Interest and Income Taxes	858,531	826,019
Interest expense, net	72,903	70,869
Income before Income Taxes	785,628	755,150
Provision for income taxes	274,576	268,321
Net Income	\$511,052	\$486,829
Earnings Per Share - Basic - Class B Common Stock	\$2.11	\$2.00
Earnings Per Share - Diluted - Class B Common Stock	\$2.09	\$1.98
Earnings Per Share - Basic - Common Stock	\$2.33	\$2.20
Earnings Per Share - Diluted - Common Stock	\$2.23	\$2.12
Average Shares Outstanding - Basic - Common Stock	164,766	166,223
Average Shares Outstanding - Basic - Class B Common Stock	60,630	60,649
Average Shares Outstanding - Diluted	228,701	230,114
Cash Dividends Paid Per Share:		
Common Stock	\$1.140	\$1.0350
Class B Common Stock	\$1.032	\$ .9375

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

THE HERSHEY COMPANY  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of dollars)

	For the Nine Months Ended	
	September 30, 2012	October 2, 2011
Net Income	\$511,052	\$486,829
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	12,477	(24,219 )
Pension and post-retirement benefit plans	11,755	13,241
Cash flow hedges:		
Gains (losses) on cash flow hedging derivatives	34,913	(51,058 )
Reclassification adjustments	47,947	(15,157 )
Total other comprehensive income (loss), net of tax	107,092	(77,193 )
Comprehensive Income	\$618,144	\$409,636

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

THE HERSHEY COMPANY  
CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$466,235	\$693,686
Accounts receivable - trade	649,328	399,499
Inventories	726,492	648,953
Deferred income taxes	103,438	136,861
Prepaid expenses and other	190,462	167,559
Total current assets	2,135,955	2,046,558
Property, Plant and Equipment, at cost	3,587,568	3,588,558
Less-accumulated depreciation and amortization	(1,969,390)	(2,028,841)
Net property, plant and equipment	1,618,178	1,559,717
Goodwill	594,854	516,745
Other Intangibles	220,223	111,913
Deferred Income Taxes	13,727	38,544
Other Assets	154,845	138,722
Total assets	\$4,737,782	\$4,412,199
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$435,283	\$420,017
Accrued liabilities	644,959	612,186
Accrued income taxes	12,631	1,899
Short-term debt	208,352	42,080
Current portion of long-term debt	251,729	97,593
Total current liabilities	1,552,954	1,173,775
Long-term Debt	1,515,757	1,748,500
Other Long-term Liabilities	636,339	617,276
Deferred Income Taxes	35,770	—
Total liabilities	3,740,820	3,539,551
Stockholders' Equity:		
The Hershey Company Stockholders' Equity		
Preferred Stock, shares issued: none in 2012 and 2011	—	—
Common Stock, shares issued: 299,271,827 in 2012 and 299,269,702 in 2011	299,271	299,269
Class B Common Stock, shares issued: 60,629,917 in 2012 and 60,632,042 in 2011	60,630	60,632
Additional paid-in capital	567,976	490,817
Retained earnings	4,960,822	4,699,597
Treasury-Common Stock shares at cost: 136,714,186 in 2012 and 134,695,826 in 2011	(4,572,198)	(4,258,962)
Accumulated other comprehensive loss	(335,239)	(442,331)
The Hershey Company stockholders' equity	981,262	849,022
Noncontrolling interests in subsidiaries	15,700	23,626
Total stockholders' equity	996,962	872,648
Total liabilities and stockholders' equity	\$4,737,782	\$4,412,199

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





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

	For the Nine Months Ended	
	September 30, 2012	October 2, 2011
Cash Flows Provided from (Used by) Operating Activities		
Net Income	\$511,052	\$486,829
Adjustments to Reconcile Net Income to Net Cash Provided from Operations:		
Depreciation and amortization	162,848	157,561
Stock-based compensation expense, net of tax of \$13,115 and \$10,963, respectively	24,249	19,831
Excess tax benefits from exercise of stock options	(28,190	) (9,561
Deferred income taxes	12,189	(6,199
Gain on sale of trademark licensing rights, net of tax of \$5,962	—	(11,072
Business realignment and impairment charges, net of tax of \$24,843 and \$8,104, respectively	43,540	13,335
Contributions to pension plans	(4,618	) (3,871
Changes in assets and liabilities, net of effects from business acquisitions:		
Accounts receivable - trade	(238,415	) (230,684
Inventories	(84,302	) (125,533
Accounts payable	38,206	51,882
Other assets and liabilities	169,348	(85,289
Net Cash Flows Provided from Operating Activities	605,907	257,229
Cash Flows Provided from (Used by) Investing Activities		
Capital additions	(200,988	) (251,206
Capitalized software additions	(12,990	) (14,390
Proceeds from sales of property, plant and equipment	392	260
Proceeds from sales of trademark licensing rights	—	20,000
Loan to affiliate	(16,000	) —
Business acquisitions	(172,856	) (5,750
Net Cash Flows Used by Investing Activities	(402,442	) (251,086
Cash Flows Provided from (Used by) Financing Activities		
Net increase in short-term debt	170,121	13,082
Long-term borrowings	1,722	478
Repayment of long-term debt	(98,398	) (254,756
Proceeds from lease financing agreement	—	47,601
Cash dividends paid	(249,827	) (228,391
Exercise of stock options	227,764	171,629
Excess tax benefits from exercise of stock options	28,190	9,561
Net payments to noncontrolling interests	(12,928	) —
Repurchase of Common Stock	(497,560	) (357,650
Net Cash Flows Used by Financing Activities	(430,916	) (598,446