

HERSHEY CO
Form 10-Q
August 07, 2013

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 June 30, 2013

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 – 162,563,741 shares, as of July 19, 2013. Class B Common Stock, \$1 par value – 60,628,572 shares, as of July 19, 2013.

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	
	June 30, 2013	July 1, 2012
Net Sales	\$ 1,508,514	\$ 1,414,444
Costs and Expenses:		
Cost of Sales	789,940	795,923
Selling, marketing and administrative	446,070	391,405
Business realignment and impairment charges, net	3,587	4,845
Total costs and expenses	1,239,597	1,192,173
Income before Interest and Income Taxes	268,917	222,271
Interest expense, net	21,094	24,344
Income before Income Taxes	247,823	197,927
Provision for income taxes	88,319	62,242
Net Income	\$ 159,504	\$ 135,685
Earnings Per Share - Basic - Class B Common Stock	\$.66	\$.56
Earnings Per Share - Diluted - Class B Common Stock	\$.66	\$.55
Earnings Per Share - Basic - Common Stock	\$.73	\$.62
Earnings Per Share - Diluted - Common Stock	\$.70	\$.59
Average Shares Outstanding - Basic - Common Stock	163,295	165,021
Average Shares Outstanding - Basic - Class B Common Stock	60,629	60,630
Average Shares Outstanding - Diluted	226,840	228,853
Cash Dividends Paid Per Share:		
Common Stock	\$.42	\$.380
Class B Common Stock	\$.38	\$.344

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	
	June 30, 2013	July 1, 2012
Net Income	\$ 159,504	\$ 135,685
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(19,104) (11,077
Pension and post-retirement benefit plans	6,852	6,615
Cash flow hedges:		
Gains (losses) on cash flow hedging derivatives	5,782	(10,774
Reclassification adjustments	2,151	16,012
Total other comprehensive (loss) income, net of tax	(4,319) 776
Comprehensive Income	\$ 155,185	\$ 136,461

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 Six Months Ended	
	June 30, 2013	July 1, 2012
Net Sales	\$3,335,940	\$3,146,508
Costs and Expenses:		
Cost of sales	1,768,029	1,784,591
Selling, marketing and administrative	896,739	796,967
Business realignment and impairment charges, net	10,438	8,149
Total costs and expenses	2,675,206	2,589,707
Income before Interest and Income Taxes	660,734	556,801
Interest expense, net	44,727	48,368
Income before Income Taxes	616,007	508,433
Provision for income taxes	214,597	174,097
Net Income	\$401,410	\$334,336
Earnings Per Share - Basic - Class B Common Stock	\$1.67	\$1.38
Earnings Per Share - Diluted - Class B Common Stock	\$1.65	\$1.37
Earnings Per Share - Basic - Common Stock	\$1.84	\$1.52
Earnings Per Share - Diluted - Common Stock	\$1.77	\$1.46
Average Shares Outstanding - Basic - Common Stock	163,537	164,810
Average Shares Outstanding - Basic - Class B Common Stock	60,629	60,630
Average Shares Outstanding - Diluted	227,274	228,752
Cash Dividends Paid Per Share:		
Common Stock	\$.84	\$.760
Class B Common Stock	\$.76	\$.688

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 Six Months Ended		
	June 30, 2013	July 1, 2012	
Net Income	\$ 401,410	\$ 334,336	
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(18,981) 1,662	
Pension and post-retirement benefit plans	13,621	12,608	
Cash flow hedges:			
Gains (losses) on cash flow hedging derivatives	4,010	(769)
Reclassification adjustments	5,768	33,303	
Total other comprehensive income, net of tax	4,418	46,804	
Comprehensive Income	\$ 405,828	\$ 381,140	

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

THE HERSHEY COMPANY
CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

ASSETS	June 30, 2013	December 31, 2012
Current Assets:		
Cash and cash equivalents	\$ 568,360	\$ 728,272
Accounts receivable - trade	366,288	461,383
Inventories	778,988	633,262
Deferred income taxes	102,762	122,224
Prepaid expenses and other	182,489	168,344
Total current assets	1,998,887	2,113,485
Property, Plant and Equipment, at cost	3,650,777	3,560,626
Less-accumulated depreciation and amortization	(1,941,431) (1,886,555
Net property, plant and equipment	1,709,346	1,674,071
Goodwill	578,906	588,003
Other Intangibles	202,495	214,713
Deferred Income Taxes	30,925	12,448
Other Assets	176,309	152,119
Total assets	\$ 4,696,868	\$ 4,754,839
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 413,144	\$ 441,977
Accrued liabilities	564,080	650,906
Accrued income taxes	4,585	2,329
Short-term debt	99,081	118,164
Current portion of long-term debt	3,316	257,734
Total current liabilities	1,084,206	1,471,110
Long-term Debt	1,794,493	1,530,967
Other Long-term Liabilities	663,519	668,732
Deferred Income Taxes	32,923	35,657
Total liabilities	3,575,141	3,706,466
Stockholders' Equity:		
The Hershey Company Stockholders' Equity		
Preferred Stock, shares issued: none in 2013 and 2012	—	—
Common Stock, shares issued: 299,273,172 in 2013 and 299,272,927 in 2012	299,272	299,272
Class B Common Stock, shares issued: 60,628,572 in 2013 and 60,628,817 in 2012	60,629	60,629
Additional paid-in capital	627,391	592,975
Retained earnings	5,246,132	5,027,617
Treasury-Common Stock shares at cost: 136,756,445 in 2013 and 136,115,714 in 2012	(4,740,944) (4,558,668
Accumulated other comprehensive loss	(380,658) (385,076
The Hershey Company stockholders' equity	1,111,822	1,036,749
Noncontrolling interests in subsidiaries	9,905	11,624
Total stockholders' equity	1,121,727	1,048,373
Total liabilities and stockholders' equity	\$ 4,696,868	\$ 4,754,839

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 Six Months Ended		
	June 30, 2013	July 1, 2012	
Cash Flows Provided from (Used by) Operating Activities			
Net Income	\$401,410	\$334,336	
Adjustments to Reconcile Net Income to Net Cash Provided from Operations:			
Depreciation and amortization	98,875	109,635	
Stock-based compensation expense	25,988	24,596	
Excess tax benefits from stock-based compensation	(36,938)	(23,849))
Deferred income taxes	(14,549)	1,999)
Non-cash business realignment and impairment charges	—	15,308	
Contributions to pension and other benefit plans	(13,249)	(12,749))
Changes in assets and liabilities, net of effects from business acquisitions:			
Accounts receivable - trade	95,095	57,487	
Inventories	(150,326)	(170,215))
Accounts payable	(5,672)	(8,605))
Other assets and liabilities	(51,188)	(13,785))
Net Cash Flows Provided from Operating Activities	349,446	314,158	
Cash Flows Provided from (Used by) Investing Activities			
Capital additions	(151,735)	(139,488))
Capitalized software additions	(6,854)	(8,319))
Proceeds from sales of property, plant and equipment	15,107	76	
Loan to affiliate	(16,000)	(16,000))
Business acquisitions	—	(172,856))
Net Cash Flows Used by Investing Activities	(159,482)	(336,587))
Cash Flows Provided from (Used by) Financing Activities			
Net (decrease) increase in short-term debt	(13,624)	95,130)
Long-term borrowings	249,785	49	
Repayment of long-term debt	(250,143)	(2,134))
Cash dividends paid	(182,895)	(167,094))
Exercise of stock options	114,157	185,600	
Excess tax benefits from stock-based compensation	36,938	23,849	
Contributions from noncontrolling interests	1,470	1,470	
Repurchase of Common Stock	(305,564)	(218,345))
Net Cash Flows Used by Financing Activities	(349,876)	(81,475))
Decrease in Cash and Cash Equivalents	(159,912)	(103,904))

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