HERSHEY CO
Form 10-K
February 21, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 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)

Registrant's telephone number, including area code: (717) 534-4200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, one dollar par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Title of class
Class B Common Stock, one dollar par value
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x 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 x
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 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 x 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. x

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 x Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a 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 x

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—$13,338,511,816 as of June 28, 2013.

Class B Common Stock, one dollar par value—$1,478,477 as of June 28, 2013. 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 June 28, 2013.

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—163,185,446 shares, as of February 7, 2014.

Class B Common Stock, one dollar par value—60,619,777 shares, as of February 7, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company’s Proxy Statement for the Company’s 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

PART I

Item 1. BUSINESS

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; pantry items, such as baking ingredients, toppings and beverages; and gum and mint refreshment products.

Reportable Segment

We operate as a single reportable segment in manufacturing, marketing, selling and distributing our products under more than 80 brand names. Our two operating segments comprise geographic regions including North America and International. We market our products in approximately 70 countries worldwide.

For segment reporting purposes, we aggregate the operations of North America and International to form one reportable segment. 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.

Organization

We operate under a matrix reporting structure designed to ensure continued focus on North America and on continuing our transformation into a more global company. Our business is organized around geographic regions and strategic business units. It is designed to enable us to build processes for repeatable success in our global markets.

Our geographic regions are accountable for delivering our annual financial plans. The key regions are:

- North America, including the United States and Canada; and
- International, including Latin America, Asia, Europe, Africa and exports to these regions.

In addition, The Hershey Experience manages our retail operations globally, including Hershey’s Chocolate World Stores in Hershey, Pennsylvania, New York City, Chicago, Shanghai, Niagara Falls (Ontario), Dubai, and Singapore.

Our two strategic business units are the chocolate business unit and the sweets and refreshment business unit. These strategic business units focus on specific components of our product line and are responsible for building and leveraging the Company’s global brands, and disseminating best demonstrated practices around the world.

Business Acquisitions

In December 2013, we entered into an agreement to acquire all of the outstanding shares of Shanghai Golden Monkey Food Joint Stock Co., Ltd. (“SGM”), a privately held confectionery company based in Shanghai, China. SGM manufactures, markets and distributes Golden Monkey branded products, including candy, chocolates, protein-based products and snack foods, in China. As of the date of the agreement, SGM manufactured products in five cities and had more than 130 sales offices and approximately 1,700 sales representatives and 2,000 distributors covering all regions and trade channels in China.

In January 2012, we acquired all of the outstanding stock of Brookside Foods Ltd. (“Brookside”), a privately held confectionery company based in Abbottsford, British Columbia, Canada. As part of this transaction, we acquired two production facilities located in British Columbia and Quebec. The Brookside product line is primarily sold in the U.S. and Canada in a take-home re-sealable pack type.

Products
North America
United States
The primary 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 with almonds bar
HERSHEY’S Extra Dark pure dark chocolate
HERSHEY’S Nuggets chocolates
HERSHEY’S Drops chocolates
HERSHEY’S AIR DELIGHT aerated milk chocolate
HERSHEY’S Miniatures chocolate candy
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
HERSHEY'S SIMPLE PLEASURES candy
HERSHEY'S Spreads

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 sugar free peanut butter cups
REESE’S crispy and crunchy 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 milk chocolates filled with caramel
HERSHEY’S KISSES brand SPECIAL DARK mildly sweet chocolates
HERSHEY'S KISSES brand Cookies 'n' Creme candies

Our other products we sell in the United States include the following:

5th AVENUE candy bar	PAYDAY peanut caramel bar
ALMOND JOY candy bar	ROLO caramels in milk chocolate
ALMOND JOY PIECES candy	ROLO Minis
BROOKSIDE chocolate covered real fruit juice pieces	SKOR toffee bar
CADBURY chocolates	SPECIAL DARK mildly sweet chocolate bar
CARAMELLO candy bar	SPECIAL DARK PIECES candy
GOOD & PLENTY candy	SYMPHONY milk chocolate bar
HEATH toffee bar	SYMPHONY milk chocolate bar with almonds and toffee
JOLLY RANCHER candy	TAKE5 candy bar
JOLLY RANCHER CRUNCH 'N CHEW candy	TWIZZLERS candy
JOLLY RANCHER sugar free candy	TWIZZLERS sugar free candy
KIT KAT BIG KAT wafer bar	WHATCHAMACALLIT candy bar
KIT KAT wafer bar	WHOPPERS malted milk balls
KIT KAT Minis	YORK Minis
LANCASTER Caramel Soft Crèmes	YORK peppermint pattie
MAUNA LOA macadamia snack nuts	YORK sugar free peppermint pattie
MILK DUDS candy	YORK PIECES candy
MOUNDS candy bar	ZAGNUT candy bar
MR. GOODBAR chocolate 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 and tasting squares. DAGOBA products include chocolate bars, drinking chocolate and baking products.

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

In Canada we sell HERSHEY’S milk chocolate bars and milk chocolate with almonds bars; 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; BROOKSIDE chocolate-covered fruit, real fruit juice pieces and nuts; and CHIPITS chocolate chips.

International

The primary products we sell in our International businesses include the following:

China

We import, market, sell and distribute chocolate and candy products in China, primarily under the HERSHEY'S, KISSES and LANCASTER brands.

Mexico

We manufacture, import, market, sell and distribute chocolate, sweets, refreshment and beverage products in Mexico under the HERSHEY'S, KISSES, JOLLY RANCHER and PELON PELO RICO brands.

Brazil

We manufacture, import and market chocolate, sweets and refreshment 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 MAHA LACTO confectionery products and JUMPIN and SOFIT beverage products.

Other International

We also export, market, sell and distribute chocolate, sweets and refreshment products in Central America and Puerto Rico, and other countries in Latin America, Asia, Europe, the Middle East and Africa regions. We license the VAN HOUTEN brand name and related trademarks to sell chocolate products, cocoa, and baking products in Asia and the Middle East for the retail and duty-free distribution channels.

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 and department stores. Except for wholesale distributors, our other customers resell our products to end-consumers in retail outlets in North America and other locations worldwide. In 2013, 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 25.5% 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 seeking to maintain 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.

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.

In March 2011, we announced a weighted-average increase in wholesale prices of approximately 9.7% across the majority of our U.S., Puerto Rico and export portfolio, effective immediately. The price increase applied to our instant consumable, multi-pack, packaged candy and grocery lines. Direct buying customers were able to purchase transitional amounts of product into May 2011, and seasonal net price realization did not occur until Easter 2012.

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 to produce the cocoa products we purchase. West Africa accounts for approximately 72% of the world’s supply of cocoa beans.

Adverse weather, crop disease, political unrest, and other problems in cocoa-producing countries have caused price fluctuations in the past, but have never resulted in the total loss of a particular producing country’s cocoa crop and/or exports. In the event that a significant disruption occurs 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.

We also use substantial quantities of sugar, Class II fluid dairy milk, peanuts, almonds and energy in our production process. Most of these inputs for our domestic and Canadian operations are purchased from suppliers in the United States. For our international operations, inputs not locally available may be imported from other countries.

We enter into futures contracts and other commodity derivative instruments to manage price risks for cocoa products, sugar, corn sweeteners, natural gas, fuel oil and certain dairy products. 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. We enter into manufacturing contracts with third parties to improve our strategic competitive position and achieve 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 and certain markets in Latin America. We sell our brands in highly competitive markets with many other global multinational, national, regional and local firms. Some of our competitors are much larger companies that have greater resources and more substantial international operations. Competition in our product categories is based on product innovation, product quality, price, brand recognition and loyalty, effectiveness of marketing, promotional activity, the ability to identify and satisfy consumer preferences, as well as convenience and service.

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 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.

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:

Company	Brand	Location	Requirements
Cadbury Ireland Limited	YORK PETER PAUL ALMOND JOY PETER PAUL MOUNDS	Worldwide	None
Cadbury UK Limited	CADBURY CARAMELLO	United States	Minimum sales requirement exceeded in 2013
Société des Produits Nestlé SA	KIT KAT ROLO	United States	Minimum unit volume sales exceeded in 2013
Huhtamäki Oy affiliate	GOOD & PLENTY HEATH JOLLY RANCHER MILK DUDS PAYDAY WHOPPERS	Worldwide	None

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 to our total annual sales.

Research and Development

We engage in a variety of research and development activities in a number of countries, including the United States, Mexico, Brazil, India and China. 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 is intended to ensure 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 intended to ensure 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.

Employees

As of December 31, 2013, we employed approximately 12,600 full-time and 2,200 part-time employees worldwide. Collective bargaining agreements covered approximately 5,025 employees. During 2014, agreements will be negotiated for certain employees at five facilities outside of the United States, comprising approximately 67% 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 16.6% for 2013, 16.2% for 2012 and 15.7% for 2011. The percentage of total consolidated assets outside of the United States as of December 31, 2013 was 19.4% and as of December 31, 2012 was 20.5%.

Corporate Social Responsibility

Our founder, Milton S. Hershey, established an enduring model of responsible citizenship while creating a successful business. Driving sustainable business practices, making a difference in our communities, and operating with the highest integrity are vital parts of our heritage. 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 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 products while conducting our business in a socially responsible and environmentally sustainable manner.

In 2013, we published our corporate social responsibility (“CSR”) scorecard, which provided an update on the progress we have made in advancing the priorities that were established in our first CSR report. The report outlines how we performed against the identified performance indicators within our four CSR pillars: environment, community, workplace and marketplace.

The safety and health of our employees, and the safety and quality of our products, are consistently at the core of our operations and are areas of ongoing focus for Hershey in the workplace. Our over-arching safety goal is to consistently achieve best in class safety performance, and Hershey has achieved continuous improvement in employee safety in the workplace since 2006. We continue to invest in our quality management systems to ensure product quality and food safety remain top priorities. We carefully monitor and rigorously enforce our high standards of excellence for superior quality, consistency and taste, and absolute food safety.

In 2013, Hershey was recognized for its environmental, social and governance performance by being named to both the Dow Jones Sustainability World Index and the North America Index. Hershey is one of only 13 companies from the Food, Beverage and Tobacco Industry in the World Index and ranked in at least the 90th percentile in each of the three categories of Economic, Environmental and Social Criteria. The Dow Jones Sustainability World Index tracks the performance of the top 10% of the 2,500 largest companies in the S&P Global Broad Market Index that lead the field in terms of sustainability.

Hershey has committed to minimizing the environmental impacts of our operations, regularly reviewing the ways in which we manage our operations and secure our supply of raw materials. Compared with our 2009 baseline, Hershey decreased waste generation by 23% and green house gas emissions by 8%, while improving our company-wide recycling rate to 80%. Additionally, we improved our Carbon Disclosure Project Performance and Disclosure scores. Hershey has made impressive strides in achieving Zero Waste to Landfill status at its facilities, with 8 facilities now operating at this level.

In the marketplace, Hershey focuses on promoting fair and ethical business dealings. A condition of doing business with us is compliance with our Supplier Code of Conduct, which outlines our expectations with regard to our suppliers' commitment to legal compliance and business integrity, social and working conditions, environment and food safety. We continue our leadership role in supporting programs to improve the lives of cocoa farming families through a variety of initiatives. Our 21st Century Cocoa Strategy aims to impact more than 2 million West Africans by

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2017 through public/private programs as well as through Hershey initiatives, including the Hershey Learn To Grow farmer and family development centers and CocoaLink, a first-of-its kind approach that uses mobile technology to deliver practical information on agricultural and social programs to rural cocoa farmers. It is our goal to source 100% certified cocoa for our global chocolate product lines by 2020, assuming adequate supply. During 2013, 18% of the cocoa we sourced globally was certified, exceeding our goal for the year. Our active engagement and financial support also continues for the World Cocoa Foundation and the International Cocoa Initiative.

Our employees 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. In 2012, Hershey donated more than $9 million in cash and product to worthy causes, our employees volunteered more than 200,000 hours in their communities, and we conducted our first “Good to Give Back Week,” a week of volunteerism that saw over 350 employees across the United States and Canada volunteer over 1,300 hours. Our focus on “Kids and Kids at Risk” is supported through contributions to 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.

Our commitment to CSR is yielding powerful results. As we move into new markets and expand our leadership in North America, we are convinced that our values and heritage will be fundamental to our continuing success.

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, 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. 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. You can obtain additional information on how to request public documents from the SEC on their website. The electronic mailbox address of the SEC is publicinfo@sec.gov.

We have a Code of Ethical Business Conduct that applies to our Board of Directors and 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. 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.

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. 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 that could have a material impact on our business, financial condition or results of 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” “potential,” among others. Among the factors that could cause our actual results to differ materially from the results projected in our forward-looking statements or could materially and adversely affect our business, financial condition or results of operations 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, could decrease 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 financial condition and results of operations.

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 and/or consumption. 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 financial condition and results of operations.

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.

There continue to be competitive product and pricing pressures in these markets, 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. Our largest customer, McLane Company, Inc., accounted for approximately 25.5% of our total net sales in 2013. 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 and consolidation in this industry continues. Some of our competitors are much larger companies 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 manufacturing operations or our supply chain could impair our ability to produce or deliver our finished products, resulting in a negative impact on our operating results.

Approximately three-quarters of our manufacturing capacity is located in the United States. Disruption to our global manufacturing operations or our supply chain could result from, among other factors, the following:

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

We believe that we take adequate precautions to mitigate the impact of possible disruptions. We have strategies and plans in place to manage such events if they were to occur, including our global supply chain strategies and our principle-based global labor relations strategy. If we are unable, or find that it is not financially feasible, to effectively plan for or mitigate potential impacts of such disruptive events on our manufacturing operations or supply chain, our financial condition and results of operations could be negatively impacted if such events were to occur.

Our financial results may be adversely impacted by the failure to successfully execute or integrate 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, staffing and talent, 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 financial condition, results of operations 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 financial condition and results of operations.

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 may not achieve projected growth objectives, which could adversely impact our overall business and results of operations.

In 2013, we derived approximately 16.6% of our net sales from customers located outside of the United States. Additionally, 19.4% of our total consolidated assets were located outside of the United States as of December 31, 2013. As part of our global growth strategy, we are increasing our investments outside of the United States, particularly in Mexico, Brazil, 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;
- Inability to establish, develop and achieve market acceptance of our global brands in international markets;
- Difficulties and costs associated with compliance and enforcement of remedies under a wide variety of complex laws, treaties and regulations;
- 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;
- Failure to gain sufficient profitable scale in certain international markets resulting in losses from impairment or sale of assets; and
- Failure to recruit, retain and build a talented and engaged global workforce.

If we are not able to achieve our projected international growth objectives and mitigate numerous risks and uncertainties associated with our international operations, there could be a negative impact on our financial condition and results of operations.

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

Information technology is critically important to our business operations. We use information technology to manage all business processes including manufacturing, financial, logistics, sales, marketing and administrative functions. These processes collect, interpret and distribute business data and communicate internally and externally with employees, suppliers, customers and others.

We invest in industry standard security technology to protect the Company’s data and business processes against risk of data security breach and cyber attack. Our data security management program includes identity, trust, vulnerability and threat management business processes as well as adoption of standard data protection policies. We measure our data security effectiveness through industry accepted methods and remediate significant findings. Additionally, we certify our major technology suppliers and any outsourced services through accepted security certification standards. We maintain and routinely test backup systems and disaster recovery, along with external network security penetration testing by an independent third party as part of our business continuity preparedness. We also have processes in place to prevent disruptions resulting from the implementation of new software and systems of the latest technology.

While we believe that our security technology and processes provide adequate measures of protection against security breaches and in reducing cybersecurity risks, disruptions in or failures of information technology systems are possible and could have a negative impact on our operations or business reputation. Failure of our systems, including failures due to cyber attacks that would prevent the ability of systems to function as intended, could cause transaction

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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 civil antitrust lawsuits and the possible investigation by government regulators of alleged pricing practices by members of the confectionery industry in the United States could negatively impact our reputation and our operating results.

We are a defendant in a number of civil antitrust lawsuits in the United States, including individual, class, and putative class actions brought against us by purchasers of our products. The U.S. Department of Justice also notified the Company in 2007 that it had opened an inquiry into certain alleged pricing practices by members of the confectionery industry, but has not requested any information or documents. Additional information about these proceedings is contained in Item 3. Legal Proceedings of this Form 10-K.

Competition and antitrust law investigations can be lengthy and violators are subject to civil and/or criminal fines and other sanctions. Class action civil antitrust lawsuits are expensive to defend and could result in significant judgments, including in some cases, payment of treble damages and/or attorneys' fees to the successful plaintiff. Additionally, negative publicity involving these proceedings could affect our Company's brands and reputation, possibly resulting in decreased demand for our products. These possible consequences, in our opinion, currently are not expected to materially impact our financial position or liquidity, but could materially impact our results of operations and cash flows in the period in which any fines, settlements or judgments are accrued or paid, respectively.

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 (2 principal plants)	Manufacturing—confectionery products and pantry items	Own
	Lancaster, Pennsylvania	Manufacturing—confectionery products	Own
	Robinson, Illinois	Manufacturing—confectionery 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	Brantford, Ontario	Distribution	Own (1)
Mexico	Monterrey, Mexico	Manufacturing—confectionery products	Own

(1) We have an agreement with the Ferrero Group for the use of a warehouse and distribution facility of which the Company has been deemed to be the owner for accounting purposes.

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. We continually improve these facilities to incorporate the latest technologies.

Item 3. LEGAL PROCEEDINGS

In 2007, the Competition Bureau of Canada began an inquiry into alleged violations of the Canadian Competition Act in the sale and supply of chocolate products sold in Canada between 2002 and 2008 by members of the confectionery industry, including Hershey Canada, Inc. The U.S. Department of Justice also notified the Company in 2007 that it had opened an inquiry, but has not requested any information or documents.

Subsequently, 13 civil lawsuits were filed in Canada and 91 civil lawsuits were filed in the United States against the Company. The lawsuits were instituted on behalf of direct purchasers of our products as well as indirect purchasers that purchase our products for use or for resale. Several other chocolate and confectionery companies were named as defendants in these lawsuits as they also were the subject of investigations and/or inquiries by the government entities referenced above. The cases seek recovery for losses suffered as a result of alleged conspiracies in restraint of trade in connection with the pricing practices of the defendants. The Canadian civil cases were settled in 2012. Hershey Canada, Inc. reached a settlement agreement with the Competition Bureau of Canada through their Leniency Program with regard to an inquiry into alleged violations of the Canadian Competition Act in the sale and supply of chocolate products sold in Canada by members of the confectionery industry. On June 21, 2013, Hershey Canada, Inc. pleaded guilty to one count of price fixing related to communications with competitors in Canada in 2007 and paid a fine of approximately $4.0 million. Hershey Canada, Inc. had promptly reported the conduct to the Competition Bureau, cooperated fully with its investigation and did not implement the planned price increase that was the subject of the 2007 communications.

With regard to the U.S. lawsuits, the Judicial Panel on Multidistrict Litigation assigned the cases to the U.S. District Court for the Middle District of Pennsylvania. Plaintiffs are seeking actual and treble damages against the Company and other defendants based on an alleged overcharge for certain, or in some cases all chocolate products sold in the U.S. between December 2002 and December 2007 and certain plaintiff groups have alleged damages that extend beyond the alleged conspiracy period. The lawsuits have been proceeding on different scheduling tracks for different groups of plaintiffs.

Defendants have briefed summary judgment against the direct purchaser plaintiffs that have not sought class certification (the “Opt-Out Plaintiffs”) and those that have (the “Direct Purchaser Class Plaintiffs”). The Direct Purchaser Class Plaintiffs were granted class certification in December 2012. Liability, fact and expert discovery in the Opt-Out Plaintiffs’ and Direct Purchaser Class Plaintiffs’ cases has been completed. The hearing on summary judgment for the Direct Purchaser Class Plaintiffs, combined with the summary judgment hearing for the Opt-Out Plaintiffs, was held on October 7, 2013. A decision is expected in the near term. Putative class plaintiffs that purchased product indirectly for resale (the “Indirect Purchasers for Resale”) have moved for class certification. A briefing schedule has not been finalized. Putative class plaintiffs that purchased product indirectly for use (the “Indirect End Users”) may seek class certification after summary judgment against the Direct Purchaser Class Plaintiffs and the Opt-Out Plaintiffs has been resolved. No trial date has been set for any group of plaintiffs. The Company will continue to vigorously defend against these lawsuits.

Competition and antitrust law investigations can be lengthy and violations are subject to civil and/or criminal fines and other sanctions. Class action civil antitrust lawsuits are expensive to defend and could result in significant judgments, including in some cases, payment of treble damages and/or attorneys' fees to the successful plaintiff. Additionally, negative publicity involving these proceedings could affect our Company's brands and reputation, possibly resulting in decreased demand for our products. These possible consequences, in our opinion, are currently not expected to materially impact our financial position or liquidity, but could materially impact our results of operations and cash flows in the period in which any fines, settlements or judgments are accrued or paid, respectively.

We have no other material pending legal proceedings, other than ordinary routine litigation incidental to our business.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

We paid $393.8 million in cash dividends on our Common Stock and Class B Common Stock ("Class B Stock") in 2013 and $341.2 million in 2012. The annual dividend rate on our Common Stock in 2013 was $1.81 per share.

On January 30, 2014, our Board of Directors declared a quarterly dividend of $0.485 per share of Common Stock payable on March 14, 2014, to stockholders of record as of February 24, 2014. It is the Company's 337th consecutive quarterly Common Stock dividend. A quarterly dividend of $0.435 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 229.8 million shares of our Common Stock were traded during 2013. The Class B Stock is not publicly traded.

The closing price of our Common Stock on December 31, 2013, was $97.23. There were 35,859 stockholders of record of our Common Stock and 6 stockholders of record of our Class B Stock as of December 31, 2013.

Information regarding dividends paid and the quarterly high and low market prices for our Common Stock and dividends paid for our Class B Stock for the two most recent fiscal years is disclosed in Note 20, Quarterly Data.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Issuer Purchases of Equity Securities

There were no purchases of our Common Stock during the three months ended December 31, 2013. In April 2011, our Board of Directors approved a $250 million share repurchase program. As of December 31, 2013, $125.1 million remained available for repurchases of our Common Stock under this program.

Performance Graph

The following graph compares our cumulative total shareholder 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.

*Hypothetical $100 invested on December 31, 2008 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		2013	2012	2011		2010	2009	2008
Summary of Operations									
Net Sales	6.8	%	$7,146,079	6,644,252	6,080,788		5,671,009	5,298,668	5,132,768
Cost of Sales	2.7	%	$3,865,231	3,784,370	3,548,896		3,255,801	3,245,531	3,375,050
Selling, Marketing and Administrative	12.4	%	$1,922,508	1,703,796	1,477,750		1,426,477	1,208,672	1,073,019
Business Realignment and Impairment Charges (Credits), Net	(27.7	)%	$18,665	44,938	(886	)	83,433	82,875	94,801
Interest Expense, Net	(2.0	)%	$88,356	95,569	92,183		96,434	90,459	97,876
Provision for Income Taxes	19.0	%	$430,849	354,648	333,883		299,065	235,137	180,617
Net Income	21.4	%	$820,470	660,931	628,962		509,799	435,994	311,405
Net Income Per Share:									
—Basic—Class B Stock	21.7	%	$3.39	2.73	2.58		2.08	1.77	1.27
—Diluted—Class B Stock	21.6	%	$3.37	2.71	2.56		2.07	1.77	1.27
—Basic—Common Stock	21.7	%	$3.76	3.01	2.85				