HERSHEY CO
Form 10-Q
November 01, 2013

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 29, 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 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 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 ¨ (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 x

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 – 162,967,134 shares, as of October 18, 2013. Class B Common Stock, $1 par value – 60,628,572 shares, as of October 18, 2013.

THE HERSHEY COMPANY
INDEX

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 29, 2013	September 30, 2012
Net Sales	$ 1,853,886	$ 1,746,709
Costs and Expenses:		
Cost of Sales	998,335	1,003,952
Selling, marketing and administrative	481,986	420,972
Business realignment and impairment charges, net	2,929	20,055
Total costs and expenses	1,483,250	1,444,979
Income before Interest and Income Taxes	370,636	301,730
Interest expense, net	21,759	24,535
Income before Income Taxes	348,877	277,195
Provision for income taxes	115,892	100,479
Net Income	$ 232,985	$ 176,716
Earnings Per Share - Basic - Class B Common Stock	$ .96	$ .73
Earnings Per Share - Diluted - Class B Common Stock	$ .95	$ .73
Earnings Per Share - Basic - Common Stock	$ 1.07	$ .80
Earnings Per Share - Diluted - Common Stock	$ 1.03	$ .77
Average Shares Outstanding - Basic - Common Stock	163,364	164,686
Average Shares Outstanding - Basic - Class B Common Stock	60,629	60,630
Average Shares Outstanding - Diluted	226,887	228,608
Cash Dividends Paid Per Share:		
Common Stock	$ .485	$ .380
Class B Common Stock	$ .435	$ .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	
	September 29, 2013	September 30, 2012
Net Income	$232,985	$176,716
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	1,053	10,815
Pension and post-retirement benefit plans	6,160	(853)
Cash flow hedges:		
Gains on cash flow hedging derivatives	57,345	35,682
Reclassification adjustments	(2,687)	14,644
Total other comprehensive income, net of tax	61,871	60,288
Comprehensive Income	$294,856	$237,004

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 29, 2013	September 30, 2012
Net Sales	$5,189,826	$4,893,217
Costs and Expenses:		
Cost of sales	2,766,364	2,788,543
Selling, marketing and administrative	1,378,725	1,217,939
Business realignment and impairment charges, net	13,367	28,204
Total costs and expenses	4,158,456	4,034,686
Income before Interest and Income Taxes	1,031,370	858,531
Interest expense, net	66,486	72,903
Income before Income Taxes	964,884	785,628
Provision for income taxes	330,489	274,576
Net Income	$634,395	$511,052
Earnings Per Share - Basic - Class B Common Stock	$2.63	$2.11
Earnings Per Share - Diluted - Class B Common Stock	$2.61	$2.09
Earnings Per Share - Basic - Common Stock	$2.91	$2.33
Earnings Per Share - Diluted - Common Stock	$2.79	$2.23
Average Shares Outstanding - Basic - Common Stock	163,483	164,766
Average Shares Outstanding - Basic - Class B Common Stock	60,629	60,630
Average Shares Outstanding - Diluted	227,149	228,701
Cash Dividends Paid Per Share:		
Common Stock	$1.325	$1.140
Class B Common Stock	$1.195	$1.032

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 29, 2013	September 30, 2012
Net Income	$634,395	$511,052
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(17,928)	12,477
Pension and post-retirement benefit plans	19,781	11,755
Cash flow hedges:		
Gains on cash flow hedging derivatives	61,355	34,913
Reclassification adjustments	3,081	47,947
Total other comprehensive income, net of tax	66,289	107,092
Comprehensive Income	$700,684	$618,144

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

THE HERSHEY COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

ASSETS	September 29, 2013	December 31, 2012
Current Assets:		
Cash and cash equivalents	$701,328	$728,272
Accounts receivable - trade, net	659,740	461,383
Inventories	762,635	633,262
Deferred income taxes	73,352	122,224
Prepaid expenses and other	178,639	168,344
Total current assets	2,375,694	2,113,485
Property, Plant and Equipment, at cost	3,665,692	3,560,626
Less-accumulated depreciation and amortization	(1,945,872)	(1,886,555)
Net property, plant and equipment	1,719,820	1,674,071
Goodwill	580,335	588,003
Other Intangibles	200,938	214,713
Deferred Income Taxes	18,915	12,448
Other Assets	182,217	152,119
Total assets	$5,077,919	$4,754,839
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$481,593	$441,977
Accrued liabilities	630,422	650,906
Accrued income taxes	38,629	2,329
Short-term debt	107,064	118,164
Current portion of long-term debt	3,060	257,734
Total current liabilities	1,260,768	1,471,110
Long-term Debt	1,796,263	1,530,967
Other Long-term Liabilities	637,042	668,732
Deferred Income Taxes	33,271	35,657
Total liabilities	3,727,344	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	645,727	592,975
Retained earnings	5,373,743	5,027,617
Treasury-Common Stock shares at cost: 136,320,560 in 2013 and 136,115,714 in 2012	(4,721,625)	(4,558,668)
Accumulated other comprehensive loss	(318,787)	(385,076)
The Hershey Company stockholders' equity	1,338,959	1,036,749
Noncontrolling interests in subsidiaries	11,616	11,624
Total stockholders' equity	1,350,575	1,048,373
Total liabilities and stockholders' equity	$5,077,919	$4,754,839

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

7

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

	For the Nine Months Ended	
	September 29, 2013	September 30, 2012
Cash Flows Provided from (Used by) Operating Activities		
Net Income	$634,395	$511,052
Adjustments to Reconcile Net Income to Net Cash Provided from Operations:		
Depreciation and amortization	150,557	162,848
Stock-based compensation expense	39,582	37,364
Excess tax benefits from stock-based compensation	(42,899)	(28,190)
Deferred income taxes	(13,007)	12,189
Non-cash business realignment and impairment charges	—	31,774
Contributions to pension and other benefit plans	(48,150)	(21,309)
Changes in assets and liabilities, net of effects from business acquisitions:		
Accounts receivable - trade	(198,357)	(238,415)
Inventories	(132,773)	(84,302)
Accounts payable	62,777	38,206
Other assets and liabilities	171,589	184,690
Net Cash Flows Provided from Operating Activities	623,714	605,907
Cash Flows Provided from (Used by) Investing Activities		
Capital additions	(215,257)	(200,988)
Capitalized software additions	(13,063)	(12,990)
Proceeds from sales of property, plant and equipment	15,149	392
Loan to affiliate	(16,000)	(16,000)
Business acquisitions	—	(172,856)
Net Cash Flows Used by Investing Activities	(229,171)	(402,442)
Cash Flows Provided from (Used by) Financing Activities		
Net (decrease) increase in short-term debt	(7,086)	170,121
Long-term borrowings	250,767	1,722
Repayment of long-term debt	(250,422)	(98,398)
Cash dividends paid	(288,269)	(249,827)
Exercise of stock options	133,248	227,764
Excess tax benefits from stock-based compensation	42,899	28,190
Contributions from (net payments to) noncontrolling interests	2,940	(12,928)
Repurchase of Common Stock	(305,564)	(497,560)
Net Cash Flows Used by Financing Activities	(421,487)	(430,916)
Decrease in Cash and Cash Equivalents	(26,944)	(227,451)
Cash and Cash Equivalents, beginning of period	728,272	693,686
Cash and Cash Equivalents, end of period	$701,328	$466,235
Interest Paid	$77,190	$82,088
Income Taxes Paid	$240,305	$233,652

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

THE HERSHEY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Our unaudited consolidated financial statements provided in this report include the accounts of the Company and our majority-owned subsidiaries and entities in which we have a controlling financial interest after the elimination of intercompany accounts and transactions. We have a controlling financial interest if we own a majority of the outstanding voting common stock and the noncontrolling shareholders do not have substantive participating rights, or we have significant control over an entity through contractual or economic interests in which we are the primary beneficiary. We prepared these statements in accordance with the instructions to Form 10-Q. The financial statements were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim reporting. These statements do not include all of the information and footnotes required by GAAP for complete financial statements. Our significant interim accounting policies include the recognition of a pro-rata share of certain estimated annual amounts primarily for raw material purchase price variances, advertising expense, incentive compensation expenses and the effective income tax rate.

We included all adjustments (consisting only of normal recurring accruals) which we believe were considered necessary for a fair presentation. We reclassified certain prior year amounts to conform to the 2013 presentation. Operating results for the nine months ended September 29, 2013 may not be indicative of the results that may be expected for the year ending December 31, 2013, because of the seasonal effects of our business. For more information, refer to the consolidated financial statements and notes included in our 2012 Annual Report on Form 10-K.

2. BUSINESS ACQUISITIONS

Acquisitions of businesses are accounted for as purchases and, accordingly, their results of operations are included in the consolidated financial statements since the respective dates of the acquisitions. The purchase price for business acquisitions is allocated to the assets acquired and liabilities assumed.

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. The purchase price for the acquisition was approximately $172.9 million.

The excess purchase price over the estimated value of the net tangible and identifiable intangible assets was recorded to goodwill. The goodwill is not expected to be deductible for tax purposes. We included results subsequent to the acquisition date in the consolidated financial statements.

3. NONCONTROLLING INTERESTS IN SUBSIDIARIES

In May 2007, we entered into an agreement with Godrej Beverages and Foods, Ltd., a consumer goods, confectionery and food company, to manufacture and distribute confectionery products, snacks and beverages across India. Under the agreement, we owned a 51% controlling interest in Godrej Hershey Ltd. The noncontrolling interests in Godrej Hershey Ltd. were included in the equity section of the Consolidated Balance Sheets. In September 2012, we acquired the remaining 49% interest in Godrej Hershey Ltd. for approximately $15.8 million. Since the Company had a controlling interest in Godrej Hershey Ltd., the difference between the amount paid and the carrying amount of the noncontrolling interest of $10.3 million was recorded as a reduction to additional paid-in capital and the noncontrolling interest in Godrej Hershey Ltd. was eliminated as of September 30, 2012.

We own a 51% controlling interest in Hershey do Brasil under a cooperative agreement with Pandurata Netherlands B.V. (“Bauducco”), a leading manufacturer of baked goods in Brazil whose primary brand is Bauducco. During the first nine months of 2013 and 2012, the Company and Bauducco each contributed cash of approximately $2.9 million to Hershey do Brasil. The noncontrolling interest in Hershey do Brasil is included in the equity section of the Consolidated Balance Sheets.

Noncontrolling interests in subsidiaries was $11.6 million as of December 31, 2012 and September 29, 2013 reflecting the impact of noncontrolling interests’ share of losses of this entity, as well as the impact of currency translation adjustments. These decreases were offset by the impact of the cash contributed by Bauducco. The share of losses pertaining to the

9

noncontrolling interests in subsidiaries was $1.9 million for the nine months ended September 29, 2013 and $10.4 million for the nine months ended September 30, 2012. This was reflected in selling, marketing and administrative expenses.

4. STOCK COMPENSATION PLANS

The Hershey Company Equity and Incentive Compensation Plan ("EICP") is the plan under which grants using shares for compensation and incentive purposes are made. The following table summarizes our stock compensation costs:

In millions of dollars	For the Three Months Ended September 29, 2013	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 29, 2013	For the Nine Months Ended September 30, 2012
Total compensation amount charged against income for stock options, performance stock units ("PSUs") and restricted stock units ("RSUs")	$ 13.6	$ 12.8	$ 39.6	$ 37.4
Total income tax benefit recognized in the Consolidated Statements of Income for share-based compensation	$ 4.5	$ 4.6	$ 13.6	$ 13.1

The increase in share-based compensation expense for the third quarter and first nine months of 2013 was driven primarily by an increase in the compensation amount upon which the number of stock-based awards granted in 2013 was based.

Stock Options

A summary of the status of our stock options as of September 29, 2013, and the change during 2013 is presented below:

Stock Options	For the Nine Months Ended September 29, 2013: Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of the period	10,553,914	$48.08	6.1 years
Granted	1,763,874	$81.86	
Exercised	(2,970,120)	$45.09	
Forfeited	(314,886)	$64.42	
Outstanding as of September 29, 2013	9,032,782	$55.11	6.4 years
Options exercisable as of September 29, 2013	4,619,554	$46.41	4.7 years

	For the Nine Months Ended September 29, 2013	For the Nine Months Ended September 30, 2012
Weighted-average fair value of options granted (per share)	$14.48	$10.59
Intrinsic value of options exercised (in millions of dollars)	$117.5	$108.2

We estimated the fair value of each stock option grant on the date of the grant using a Black-Scholes option-pricing model and the weighted-average assumptions set forth in the following table:

	For the Nine Months Ended September 29, 2013	For the Nine Months Ended September 30, 2012
Dividend yields	2.2 %	2.4 %
Expected volatility	22.2 %	22.4 %
Risk-free interest rates	1.4 %	1.5 %
Expected lives in years	6.6	6.6

As of September 29, 2013, the aggregate intrinsic value of options outstanding was $334.8 million and the aggregate intrinsic value of options exercisable was $211.4 million.

As of September 29, 2013, there was $26.6 million of total unrecognized compensation cost related to non-vested stock option compensation arrangements granted under our stock option plans. That cost is expected to be recognized over a weighted-average period of 2.3 years.

Performance Stock Units and Restricted Stock Units

A summary of the status of our PSUs and RSUs as of September 29, 2013, and the change during 2013 is presented below:

Performance Stock Units and Restricted Stock Units	For the Nine Months Ended September 29, 2013	Weighted-average grant date fair value for equity awards or market value for liability awards
Outstanding at beginning of year	1,720,577	$56.71
Granted	371,695	$88.11
Performance assumption change	187,895	$83.40
Vested	(733,178)	$49.88
Forfeited	(120,533)	$72.35
Outstanding as of September 29, 2013	1,426,456	$71.76

The table above excludes PSU awards for 40,812 units as of December 31, 2012 and 29,422 units as of September 29, 2013 for which the measurement date has not yet occurred for accounting purposes.

The following table sets forth information about the fair value of the PSUs and RSUs granted for potential future distribution to employees and directors during the year. In addition, the table provides assumptions used to determine the fair value of the market-based total shareholder return component of the PSU grants using a Monte Carlo simulation model on the date of grant:

	For the Nine Months Ended	
	September 29, 2013	September 30, 2012
Units granted	371,695	445,892
Weighted-average fair value at date of grant	$ 88.11	$ 64.07
Monte Carlo simulation assumptions:		
Estimated values	$ 55.49	$ 35.62
Dividend yields	2.0 %	2.5 %
Expected volatility	17.1 %	20.0 %

As of September 29, 2013, there was $45.3 million of unrecognized compensation cost relating to non-vested PSUs and RSUs. We expect to recognize that cost over a weighted-average period of 2.1 years.

	For the Nine Months Ended	
	September 29, 2013	September 30, 2012
Intrinsic value of share-based liabilities paid, combined with the fair value of shares vested (in millions of dollars)	$ 60.5	$ 36.2

The higher amount in 2013 was primarily due to the higher stock price at distribution in the first nine months of 2013 compared with first nine months of 2012.

Deferred performance stock units, deferred restricted stock units, and directors' fees and accumulated dividend amounts representing deferred stock units totaled 607,657 units as of September 29, 2013. Each unit is equivalent to one share of the Company's Common Stock.

No stock appreciation rights were outstanding as of September 29, 2013.

For more information on our stock compensation plans, refer to the consolidated financial statements and notes included in our 2012 Annual Report on Form 10-K and our proxy statement for the 2013 annual meeting of stockholders.

5. INTEREST EXPENSE

Net interest expense consisted of the following:

	For the Three Months Ended		For the Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
In thousands of dollars				
Interest expense	$22,838	$26,019	$69,619	$79,893
Interest income	(696)	(585)	(2,109)	(1,935)
Capitalized interest	(383)	(899)	(1,024)	(5,055)
Interest expense, net	$21,759	$24,535	$66,486	$72,903

6. BUSINESS REALIGNMENT AND IMPAIRMENT CHARGES

In June 2010, we announced Project Next Century (the “Next Century program”) as part of our ongoing efforts to create an advantaged supply chain and competitive cost structure. As part of the program, production was to transition from the Company's century-old facility at 19 East Chocolate Avenue in Hershey, Pennsylvania, to an expanded West Hershey facility, which was initially constructed in 1992. Production from the 19 East Chocolate Avenue plant, as well as a portion of the workforce, has transitioned to the West Hershey facility.

We estimate that the Next Century program will incur total pre-tax charges and non-recurring project implementation costs of $190 million to $200 million. This estimate includes $170 million to $180 million in pre-tax business realignment and impairment charges and approximately $20.0 million in project implementation and start-up costs. Total costs of $13.6 million were recorded in the first nine months of 2013, total costs of $76.3 million were recorded in 2012, total costs of $43.4 million were recorded in 2011 and total costs of $53.9 million were recorded in 2010.

Business realignment and impairment charges recorded during the three-month and nine-month periods ended September 29, 2013 and September 30, 2012 were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
In thousands of dollars				
Cost of sales – Next Century program	$62	$5,158	$209	$38,041
Selling, marketing and administrative – Next Century program	1	587	18	2,138
Business realignment and impairment charges, net				
Next Century program				
Plant closure expenses	2,929	6,938	13,367	14,173
Pension settlement loss	—	13,117	—	13,117
Employee separation costs	—	—	—	914
Total business realignment and impairment charges, net	2,929	20,055	13,367	28,204
Total business realignment and impairment charges	$2,992	$25,800	$13,594	$68,383

Next Century Program

Plant closure expenses of $2.9 million and $13.4 million were recorded in the third quarter and first nine months of 2013, respectively, primarily related to costs associated with the demolition of a former manufacturing facility.

A charge of $5.2 million was recorded in cost of sales during the third quarter of 2012 related primarily to the accelerated depreciation of fixed assets over a reduced remaining useful life and start-up costs associated with the Next Century program. A charge of $0.6 million was recorded in selling, marketing and administrative expenses in the third

12

quarter of 2012 related primarily to project administration for the Next Century program. Expenses of $6.9 million were recorded in the third quarter of 2012 primarily related to costs associated with the closure of a manufacturing facility and the relocation of production lines. The level of lump sum withdrawals during the first nine months of 2012 from one of the Company's pension plans by employees retiring or leaving the Company resulted in a non-cash pension settlement loss of $13.1 million recorded in the third quarter of 2012.

A charge of $38.0 million was recorded in cost of sales during the first nine months of 2012 related primarily to start-up costs associated with the Next Century program and accelerated depreciation of fixed assets over a reduced remaining useful life. A charge of $2.1 million was recorded in selling, marketing and administrative expenses during the first nine months of 2012 related primarily to project administration for the Next Century program. Expenses of $14.2 million were recorded during the first nine months of 2012 primarily related to costs associated with the closure of a manufacturing facility and the relocation of production lines. Employee separation costs of $0.9 million for the Next Century program in the first nine months of 2012 were related to expected voluntary and involuntary terminations.

The September 29, 2013 liability balance relating to the Next Century program was $1.0 million for estimated building remediation and employee separation costs which were recorded in 2010 and 2011. During the first nine months of 2013, we made payments against the liabilities of $6.6 million primarily related to employee separation costs.

7. EARNINGS PER SHARE

We compute Basic and Diluted Earnings Per Share based on the weighted-average number of shares of the Common Stock and the Class B Common Stock outstanding as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
In thousands except per share amounts				
Net income	$232,985	$176,716	$634,395	$511,052
Weighted-average shares - Basic				
Common Stock	163,364	164,686	163,483	164,766
Class B Common Stock	60,629	60,630	60,629	60,630
Total weighted- average shares - Basic	223,993	225,316	224,112	225,396
Effect of dilutive securities:				
Employee stock options	2,431	2,641	2,488	2,641
Performance and restricted stock units	463	651	549	664
Weighted-average shares - Diluted	226,887	228,608	227,149	228,701
Earnings Per Share - Basic				
Class B Common Stock	$0.96	$0.73	$2.63	$2.11
Common Stock	$1.07	$0.80	$2.91	$2.33
Earnings Per Share - Diluted				
Class B Common Stock	$0.95	$0.73	$2.61	$2.09
Common Stock	$1.03	$0.77	$2.79	$2.23

The Class B Common Stock is convertible into Common Stock on a share for share basis at any time. The calculation of earnings per share-diluted for the Class B Common Stock was performed using the two-class method and the calculation of earnings per share-diluted for the Common Stock was performed using the if-converted method.

	For the Three Months Ended		For the Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
In millions				
Stock options excluded from diluted earnings per share calculations because the effect would have been antidilutive	1.0	—	1.8	3.5

13

8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We account for derivative instruments in accordance with Financial Accounting Standards Board accounting standards which require us to recognize all derivative instruments at fair value. We classify derivatives as assets or liabilities on the balance sheet. As of September 29, 2013 and December 31, 2012, all of our derivative instruments were classified as cash flow hedges.

The fair value of derivative instruments in the Consolidated Balance Sheet as of September 29, 2013 was as follows:

Balance Sheet Caption	Interest Rate Swap Agreements	Foreign Exchange Forward Contracts and Options	Commodities Futures and Options Contracts
In thousands of dollars			
Prepaid expense and other current assets	$—	$3,346	$6,006
Other long-term assets	$17,123	$3,226	$—
Accrued liabilities	$—	$8	$—

The fair value of derivative instruments in the Consolidated Balance Sheet as of December 31, 2012 was as follows:

Balance Sheet Caption	Interest Rate Swap Agreements	Foreign Exchange Forward Contracts and Options	Commodities Futures and Options Contracts
In thousands of dollars			
Prepaid expense and other current assets	$—	$2,119	$—
Accrued liabilities	$12,502	$917	$2,010
Other long-term liabilities	$922	$—	$—

The fair value of the interest rate swap agreements represents the difference in the present values of cash flows calculated at the contracted interest rates and at current market interest rates at the end of the period. We calculate the fair value of interest rate swap agreements quarterly based on the quoted market price for the same or similar financial instruments.

The fair value of foreign exchange forward contracts and options is the amount of the difference between the contracted and current market foreign currency exchange rates at the end of the period. We estimate the fair value of foreign exchange forward contracts and options on a quarterly basis by obtaining market quotes of spot and forward rates for contracts with similar terms, adjusted where necessary for maturity differences.

As of September 29, 2013, prepaid expense and other current assets associated with commodities futures and options contracts were associated with cash transfers receivable on commodities futures contracts reflecting the change in quoted market prices on the last trading day for the period. We make or receive cash transfers to or from commodity futures brokers on a daily basis reflecting changes in the value of futures contracts on the IntercontinentalExchange or various other exchanges. These changes in value represent unrealized gains and losses.

The effect of derivative instruments on the Consolidated Statements of Income for the nine months ended September 29, 2013 was as follows:

Cash Flow Hedging Derivatives	Interest Rate Swap Agreements	Foreign Exchange Forward Contracts and Options	Commodities Futures and Options Contracts
In thousands of dollars			
Gains (losses) recognized in other comprehensive income ("OCI") (effective portion)	$21,515	$6,501	$69,670
Gains (losses) reclassified from accumulated OCI into income (effective portion) (a)	$(2,858)	$3,382	$(5,500)
Gains (losses) recognized in income (ineffective portion) (b)	$—	$—	$3,271

The effect of derivative instruments on the Consolidated Statements of Income for the nine months ended September 30, 2012 was as follows:

Cash Flow Hedging Derivatives	Interest Rate Swap Agreements	Foreign Exchange Forward Contracts and Options	Commodities Futures and Options Contracts
In thousands of dollars			
Gains (losses) recognized in other comprehensive income ("OCI") (effective portion)	$(15,477)	$3,249	$70,129
Gains (losses) reclassified from accumulated OCI into income (effective portion) (a)	$(2,646)	$(2,563)	$(72,000)
Gains (losses) recognized in income (ineffective portion) (b)	$—	$—	$2,465

(a) Gains (losses) reclassified from accumulated OCI into earnings were included in cost of sales for commodities futures and options contracts and for foreign exchange forward contracts and options designated as hedges of purchases of inventory. Other gains and losses for foreign exchange forward contracts and options were included in selling, marketing and administrative expenses. Gains (losses) reclassified from accumulated OCI into earnings were included in interest expense for interest rate swap agreements.

(b) Gains (losses) recognized in earnings were included in cost of sales for commodities futures and options contracts.

All gains (losses) related to the ineffective portion of the hedging relationship were recognized in earnings. We recognized no components of gains and losses on cash flow hedging derivatives in income due to excluding such components from the hedge effectiveness assessment.

The amount of net gains on cash flow hedging derivatives, including interest rate swap agreements, foreign exchange forward contracts and options, and commodities futures and options contracts, expected to be reclassified into earnings in the next twelve months was approximately $16.6 million after tax as of September 29, 2013. This amount was primarily associated with commodities futures and options contracts.

For more information, refer to the consolidated financial statements and notes included in our 2012 Annual Report on Form 10-K.

9. COMPREHENSIVE INCOME

A summary of the components of comprehensive income (loss) is as follows:

	For the Three Months Ended September 29, 2013		
In thousands of dollars	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Net income			$232,985
Other comprehensive income (loss):			
Foreign currency translation adjustments	$1,053	—	1,053
Pension and post-retirement benefit plans (a)	9,930	(3,770)	6,160
Cash flow hedges:			
Gains on cash flow hedging derivatives	91,656	(34,311)	57,345
Reclassification adjustments (b)	(4,342)	1,655	(2,687)
Total other comprehensive income	$98,297	$(36,426)	61,871
Comprehensive income			$294,856

	For the Three Months Ended September 30, 2012		
In thousands of dollars	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Net income			$176,716
Other comprehensive income (loss):			
Foreign currency translation adjustments	$10,815	$—	10,815
Pension and post-retirement benefit plans (a)	(1,425)	572	(853)
Cash flow hedges:			
Gains on cash flow hedging derivatives	58,797	(23,115)	35,682
Reclassification adjustments (b)	23,233	(8,589)	14,644
Total other comprehensive income	$91,420	$(31,132)	60,288
Comprehensive income			$237,004

	For the Nine Months Ended September 29, 2013		
In thousands of dollars	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Net income			$634,395
Other comprehensive income (loss):			
Foreign currency translation adjustments	$(17,928)	$—	(17,928)
Pension and post-retirement benefit plans (a)	32,231	(12,450)	19,781
Cash flow hedges:			
Gains on cash flow hedging derivatives	97,686	(36,331)	61,355
Reclassification adjustments (b)	4,976	(1,895)	3,081

Total other comprehensive income	$116,965	$(50,676)	66,289
Comprehensive income			$700,684

16

	For the Nine Months Ended September 30, 2012		
	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
In thousands of dollars			
Net income			$511,052
Other comprehensive income (loss):			
Foreign currency translation adjustments	$12,477	$—	12,477
Pension and post-retirement benefit plans (a)	18,958	(7,203)	11,755
Cash flow hedges:			
Gains on cash flow hedging derivatives	57,901	(22,988)	34,913
Reclassification adjustments (b)	77,209	(29,262)	47,947
Total other comprehensive income	$166,545	$(59,453)	107,092
Comprehensive income			$618,144

(a) These amounts are included in the computation of net periodic benefit costs. For more information, see Note 16. Pension and Other Post-Retirement Benefit Plans.

(b) For information on the presentation of reclassification adjustments for cash flow hedges on the Consolidated Statements of Income, see Note 8. Derivative Instruments and Hedging Activities.

The components of accumulated other comprehensive income (loss) as shown on the Consolidated Balance Sheets are as follows:

	September 29, 2013	December 31, 2012
In thousands of dollars		
Foreign currency translation adjustments	$(8,755)	$9,173
Pension and post-retirement benefit plans, net of tax	(346,256)	(366,037)
Cash flow hedges, net of tax	36,224	(28,212)
Total accumulated other comprehensive loss	$(318,787)	$(385,076)

10. INVENTORIES

We value the majority of our inventories under the last-in, first-out ("LIFO") method and the remaining inventories at the lower of first-in, first-out ("FIFO") cost or market. Inventories were as follows:

	September 29, 2013	December 31, 2012
In thousands of dollars		
Raw materials	$217,258	$256,969
Goods in process	88,948	78,292
Finished goods	609,754	496,981
Inventories at FIFO	915,960	832,242
Adjustment to LIFO	(153,325)	(198,980)
Total inventories	$762,635	$633,262

The decrease in raw material inventories as of September 29, 2013 was due to the timing of deliveries to support manufacturing requirements as well as lower ingredient costs in 2013. The increase in goods in process inventories as of September 29, 2013 was principally the result of higher levels of cocoa products needed to support manufacturing requirements. Finished goods inventories were higher as of September 29, 2013 primarily due to increases to support anticipated sales levels of everyday and seasonal items. The change in the adjustment to LIFO amount from December 31, 2012 to September 29, 2013 was primarily due to lower ingredient costs in 2013.

17

11. SHORT-TERM DEBT

As a source of short-term financing, we utilize cash on hand and commercial paper or bank loans with an original maturity of three months or less. Our five-year unsecured revolving credit agreement contains certain financial and other covenants, customary representations, warranties and events of default. As of September 29, 2013, we complied with all covenants pertaining to the credit agreement. There were no significant compensating balance agreements that legally restricted these funds. For more information, refer to the consolidated financial statements and notes included in our 2012 Annual Report on Form 10-K.

12. LONG-TERM DEBT

In April 2013, we repaid $250.0 million of 5.0% Notes due in 2013. In May 2013, we issued $250.0 million of 2.625% Notes due in 2023. The Notes were issued under the registration statement that was filed in May 2012 which registered an indeterminate amount of debt securities.

13. 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 29, 2013 and December 31, 2012, because of the relatively short maturity of these instruments.

The carrying value of long-term debt, including the current portion, was $1,799.3 million as of September 29, 2013, compared with a fair value of $1,968.5 million, based on quoted market prices for the same or similar debt issues.

Interest Rate Swaps

In order to minimize financing costs and to manage interest rate exposure, the Company, from time to time, enters into interest rate swap agreements. In April 2012, the Company entered into forward starting interest rate swap agreements to hedge interest rate exposure related to the anticipated $250 million of term financing expected to be executed during 2013 to repay $250 million of 5.0% Notes maturing in April 2013. The weighted-average fixed rate on these forward starting swap agreements was 2.4%. In May 2012, the Company entered into forward starting interest rate swap agreements to hedge interest rate exposure related to the anticipated $250 million of term financing expected to be executed during 2015 to repay $250 million of 4.85% Notes maturing in August 2015. The weighted-average fixed rate on these forward starting swap agreements was 2.7%.

The forward starting swap agreements entered into in April 2012 matured in March 2013, resulting in a realized loss of approximately $9.5 million. Also in March 2013, we entered into forward starting swap agreements to continue to hedge interest rate exposure related to the term financing expected to be executed in 2013. The weighted-average fixed rate on the forward starting swap agreements was 2.1%.

In May 2013, we terminated the forward starting swap agreements which were entered into in March 2013 to hedge the anticipated execution of term financing. The swap agreements were terminated upon the issuance of the 2.625% Notes due May 1, 2023, resulting in cash payments of $0.2 million in May 2013. Losses on the swap agreements are included in accumulated other comprehensive income and are being amortized as an increase to interest expense over the term of the Notes.

The fair value of interest rate swap agreements was an asset of $17.1 million as of September 29, 2013. The Company's risk related to interest rate swap agreements is limited to the cost of replacing such agreements at prevailing market rates. For more information, see Note 8. Derivative Instruments and Hedging Activities.

Foreign Exchange Forward Contracts

The following table summarizes our foreign exchange activity:

In millions of dollars	September 29, 2013 Contract Amount	Primary Currencies
Foreign exchange forward contracts to purchase foreign currencies	$154.1	Malaysian ringgits Swiss francs Euros
Foreign exchange forward contracts to sell foreign currencies	$8.6	Canadian dollars

Our foreign exchange forward contracts mature in 2013, 2014 and 2015. For more information, see Note 8. Derivative Instruments and Hedging Activities.

14. FAIR VALUE ACCOUNTING

We use certain derivative instruments, from time to time, to manage interest rate, foreign currency exchange rate and commodity market price risk exposures, all of which are recorded at fair value based on quoted market prices or rates. A summary of our cash flow hedging derivative assets and liabilities measured at fair value on a recurring basis as of September 29, 2013, is as follows:

Description	Fair Value as of September 29, 2013	Quoted Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
In thousands of dollars				
Assets				
Cash flow hedging derivatives	$58,431	$34,736	$23,695	$—
Liabilities				
Cash flow hedging derivatives	$28,738	$28,730	$8	$—

As of September 29, 2013, cash flow hedging derivative Level 1 assets were related to cash transfers receivable on commodities futures contracts with gains reflecting the change in quoted market prices on the last trading day for the period. As of September 29, 2013, cash flow hedging derivative Level 1 liabilities were related to cash transfers payable on commodities futures contracts with losses resulting from the change in quoted market prices on the last trading day for the period. We make or receive cash transfers to or from commodity futures brokers on a daily basis reflecting changes in the value of futures contracts on the IntercontinentalExchange or various other exchanges. These changes in value represent unrealized gains and losses.

As of September 29, 2013, cash flow hedging derivative Level 2 assets were related to the fair value of interest rate swap agreements and foreign exchange forward contracts and options with gains. Cash flow hedging Level 2 liabilities were related to the fair value of foreign exchange forward contracts and options with losses. The fair value of the interest rate swap agreements represents the difference in the present values of cash flows calculated at the contracted interest rates and at current market interest rates at the end of the period. We calculate the fair value of interest rate swap agreements quarterly based on the quoted market price for the same or similar financial instruments. The fair value of foreign exchange forward contracts and options is the amount of the difference between the contracted and current market foreign currency exchange rates at the end of the period. We estimate the fair value of foreign exchange forward contracts and options on a quarterly basis by obtaining market quotes of spot and forward rates for contracts with similar terms, adjusted where necessary for maturity differences. For more information, see Note 8. Derivative Instruments and Hedging Activities and refer to the consolidated financial statements and notes included in our 2012 Annual Report on Form 10-K.

A summary of our cash flow hedging derivative assets and liabilities measured at fair value on a recurring basis as of December 31, 2012, is as follows:

Description	Fair Value as of December 31, 2012	Quoted Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
In thousands of dollars				
Assets				
Cash flow hedging derivatives	$39,175	$37,056	$2,119	$—
Liabilities				
Cash flow hedging derivatives	$53,407	$39,066	$14,341	$—

As of December 31, 2012, cash flow hedging derivative Level 1 assets were primarily related to cash transfers receivable on commodities futures contracts with gains reflecting the change in quoted market prices on the last trading day for the period. As of December 31, 2012, cash flow hedging derivative Level 1 liabilities were primarily related to cash transfers payable on commodities futures contracts with losses resulting from the change in quoted market prices on the last trading day for the period.

As of December 31, 2012, cash flow hedging derivative Level 2 assets were related to the fair value of foreign exchange forward contracts and options with gains. Cash flow hedging Level 2 liabilities were related to the fair value of interest rate swap agreements and foreign exchange forward contracts and options with losses.

15. INCOME TAXES

The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions include the United States (federal and state), Canada and Mexico. We are no longer subject to U.S. federal income tax examinations by the U.S. Internal Revenue Service ("IRS") for years prior to 2009. During the first quarter of 2013, the IRS commenced its audits of our U.S. income tax returns for the years 2009 through 2011. Tax examinations by various state taxing authorities could generally be conducted for years beginning in 2008. We are no longer subject to Canadian federal income tax examinations by the Canada Revenue Agency ("CRA") for years before 2006. During the third quarter of 2010, the CRA commenced its audit of our Canadian income tax returns for the years 2006 through 2009. During the third quarter of 2013, the CRA notified us that they will also be conducting an audit of the Canadian income tax returns for the years 2010 to 2012. We are no longer subject to Mexican federal income tax examinations by Servicio de Administracion Tributaria ("SAT") for years before 2008. U.S., Canadian and Mexican federal audit issues typically involve the timing of deductions and transfer pricing adjustments. We work with the IRS, the CRA and the SAT to resolve proposed audit adjustments and to minimize the amount of adjustments. We do not anticipate that any potential tax adjustments will have a significant impact on our financial position or results of operations.

We reasonably expect reductions in the liability for unrecognized tax benefits of approximately $6.4 million within the next 12 months because of the expiration of statutes of limitations and settlements of tax audits.

16. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

Components of net periodic benefit cost consisted of the following:

	Pension Benefits		Other Benefits	
	For the Three Months Ended			
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
In thousands of dollars				
Service cost	$7,830	$7,576	$274	$293
Interest cost	10,984	12,665	2,686	3,316
Expected return on plan assets	(18,277)	(18,222)	—	—
Amortization of prior service cost	106	182	209	156
Recognized net actuarial loss (gain)	10,106	9,895	(73)	(25)
Administrative expenses	270	137	24	22
Net periodic benefit cost	11,019	12,233	3,120	3,762
Settlement loss	—	13,117	—	—
Total amount reflected in earnings	$11,019	$25,350	$3,120	$3,762

We made contributions of $28.7 million and $6.3 million to the pension plans and other benefits plans, respectively, during the third quarter of 2013. In the third quarter of 2012, we made contributions of $2.9 million and $5.7 million to our pension and other benefits plans, respectively. The contributions in 2013 and 2012 also included benefit payments from our non-qualified pension plans and post-retirement benefit plans.

The pension settlement loss in 2012 was related to the Next Century program.

Components of net periodic benefit cost consisted of the following:

	Pension Benefits		Other Benefits	
	For the Nine Months Ended			
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
In thousands of dollars				
Service cost	$23,528	$22,722	$821	$879
Interest cost	32,986	37,980	8,063	9,942
Expected return on plan assets	(54,862)	(54,634)	—	—
Amortization of prior service cost	317	545	463	465
Recognized net actuarial loss (gain)	30,324	29,673	(55)	(75