HERSHEY CO
Form 10-K
February 18, 2011

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, 2010

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

Registrant, State of Incorporation, Address and Telephone Number

THE HERSHEY COMPANY

(a Delaware corporation)

100 Crystal A Drive

Hershey, Pennsylvania 17033

(717) 534-4200

I.R.S. Employer Identification Number 23-0691590

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:	**Class B Common Stock, one dollar par value**
	(Title of class)

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 ¨ (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

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 $7,373,298,337 as of July 2, 2010.

Class B Common Stock, one dollar par value $4,623,676 as of July 2, 2010. 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 July 2, 2010.

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 166,595,380 shares, as of February 9, 2011.

Class B Common Stock, one dollar par value 60,706,419 shares, as of February 9, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s Proxy Statement for the Company s 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

PART I

Item 1. ***BUSINESS***
Company Overview

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

Reportable Segment

We operate as a single reportable segment in manufacturing, marketing, selling and distributing various package types of chocolate and sugar confectionery products, pantry items and gum and mint refreshment products under more than 80 brand names. Our five operating segments comprise geographic regions including the United States, Canada, Mexico, Brazil and other international locations, such as India, Korea, Japan, the Middle East, China and the Philippines. We market our products in approximately 60 countries worldwide.

For segment reporting purposes, we aggregate our operations in the Americas, which comprise the United States, Canada, Mexico and Brazil. 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. We aggregate our other international operations with the Americas to form one reportable segment. When combined, our other international operations share most of the aggregation criteria and represent less than 10% of consolidated revenues, operating profits and assets.

Selling and Marketing Organization

During 2010, our selling and marketing organization was comprised of Hershey North America, Hershey International and the Global Marketing Group. This organization was designed to:

- Leverage our marketing and sales leadership in the United States and Canada;
- Focus on key strategic growth areas in global markets; and
- Build capabilities that capitalize on unique consumer and customer trends.

Hershey North America

Hershey North America was responsible for our chocolate and sugar confectionery market position in the U.S. and Canada. This included developing and growing our business in our chocolate, sugar confectionery, refreshment, pantry, and food service product lines. A component of Hershey North America, The Hershey Experience, managed our retail operations within the United States.

Hershey International

Hershey International was responsible for international subsidiaries that manufacture, import, market, sell or distribute chocolate, sugar confectionery and beverage products in Latin America and Asia, particularly Mexico, Brazil, China and India. Hershey International was also responsible for manufacturing confectionery products for the markets in Asia, particularly in China, under an agreement with Lotte Confectionery Co., Ltd. A component of Hershey International managed our Hershey s Shanghai retail attraction in Shanghai, China.

Global Marketing Group

Our Global Marketing Group was responsible for building global brands, developing transformational growth platforms, brand positioning and portfolio strategy. This organization also developed market-specific insights, strategies and platform innovation for Hershey North America and Hershey International.

New Organization Design

Beginning in January 2011, we are operating under a matrix reporting structure, with the Chief Executive Officer responsible for our strategic direction, and the Chief Operating Officer responsible for our day-to-day operations and global commercial activities. This matrix reporting structure is designed to disperse operating decisions, and create the basis for a scalable structure as we develop globally.

Our business is organized around three key categories: geographic regions, strategic business units and our global marketing organization. Our new organization is designed to enable us to build processes for repeatable success in our global markets.

Our geographic regions will have accountability for delivering our annual financial plans. The key regions are:

- The United States;
- The Americas, including Canada, Mexico, Brazil and global exports; and
- Asia, including the Middle East and Africa.

Our two strategic business units comprise chocolate and sugar confections, which includes our refreshment brands. These strategic business units are responsible for building and leveraging Hershey s brands, creating marketplace innovation and disseminating best demonstrated practices around the world, while achieving annual and strategic objectives.

Our global marketing organization is responsible for developing leading edge insights and intellectual capital; setting the framework, standards and processes for global marketing; driving marketing continuous improvement; building innovation within categories; developing new business beyond core confections; and developing marketing talent. This organization is also responsible for our retail operations and licensing.

Key strategic imperatives for our organization include:

- Building a sustainable and competitively advantaged business model, continuing our focus on managing our cost profile in order to provide the margin structure and resources to continue to invest in our business;
- Driving unrelenting focus on predictable and profitable growth in the United States by continuing to invest in our brands and capabilities;
- Delivering consumer-driven insights and sustainable innovation to improve our position in key growth areas strengthening our position globally in sugar confections, building a competitive position in the premium and value confectionery segments and supporting health and wellness product offerings;
- Driving scale growth in the international marketplace, especially in Canada, Mexico, China and other markets;
- More aggressively pursuing merger and acquisition opportunities in international and U.S. confectionery markets; and

Delivering a superior employee value proposition for our greatest asset through training, development and talent retention and acquisition in order to succeed and compete in the global marketplace.

Products

United States

The primary chocolate and sugar confectionery 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 bar with almonds
HERSHEY S Extra Dark chocolates

HERSHEY S MINIATURES chocolate candy

HERSHEY S NUGGETS chocolates
HERSHEY S DROPS chocolates

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

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 Select Clusters candy

REESE S sugar free peanut butter cups
REESE S crispy crunchy bar
REESE S WHIPPS nougat 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 chocolate meltaway milk chocolates

HERSHEY S KISSES brand milk chocolates with cherry cordial crème
HERSHEY S KISSES brand milk chocolates filled with caramel

HERSHEY S KISSES brand *SPECIAL DARK* chocolates

Our other chocolate and sugar confectionery products sold in the United States include the following:

5th AVENUE candy bar	*MILK DUDS* candy	*TAKE5* candy bar
ALMOND JOY candy bar	*MOUNDS* candy bar	*THINGAMAJIG* candy bar
ALMOND JOY PIECES candy	*MR. GOODBAR* candy bar	*TWIZZLERS* candy
CADBURY chocolates	*PAYDAY* peanut caramel bar	*TWIZZLERS* sugar free candy
CARAMELLO candy bar	*ROLO* caramels in milk chocolate	*WHATCHAMACALLIT* candy bar
GOOD & PLENTY candy	*SKOR* toffee bar	*WHOPPERS* malted milk balls
HEATH toffee bar	*SPECIAL DARK* chocolate bar	*YORK* peppermint pattie
JOLLY RANCHER candy	*SPECIAL DARK PIECES* candy	*YORK* sugar free peppermint pattie
JOLLY RANCHER sugar free hard candy	*SYMPHONY* milk chocolate bar	*YORK PIECES* candy

KIT KAT wafer bar	*SYMPHONY* milk chocolate bar with almonds and toffee	*ZAGNUT* candy 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, tasting squares, home baking products and professional chocolate and cocoa items. *DAGOBA* products include chocolate bars, drinking chocolate and baking products.

Snack products

Our snack products include *HERSHEY S* 100 calorie bars in several varieties, *REESE S SNACK BARZ* and *MAUNA LOA* macadamia snack nuts.

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

Principal products we sell in Canada are *HERSHEY S* milk chocolate bars and milk chocolate bars with almonds; *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; and *CHIPITS* chocolate chips.

Mexico

We manufacture, import, market, sell and distribute chocolate, sugar confectionery and beverage products in Mexico, under the *HERSHEY S*, *KISSES*, *JOLLY RANCHER* and *PELÓN PELO RICO* brands.

Brazil

We manufacture, import and market chocolate and sugar confectionery 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 *GODREJ* confectionery and beverage products.

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, department stores and natural food stores. Our customers then resell our products to end-consumers in over 2 million retail outlets in North America and other locations worldwide. In 2010, 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 22.1% 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 maintaining 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.

In August 2008, we announced an increase in wholesale prices across the United States, Puerto Rico and export chocolate and sugar confectionery lines. This price increase was effective immediately, and represented a weighted-average 11% increase on our instant consumable, multi-pack and packaged candy lines. These changes approximated a 10% increase over the entire domestic product line.

In January 2008, we announced an increase in the wholesale prices of our domestic confectionery line, effective immediately. This price increase applied to our standard bar, king-size bar, 6-pack and vending lines and represented a weighted-average increase of approximately 13% on these items. These price changes approximated a 3% increase over our entire domestic product line.

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.

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. West Africa accounts for approximately 65% of the world s supply of cocoa beans.

Historically, there have been instances of adverse weather, crop disease, civil disruptions, and other problems in cocoa-producing countries that have caused price fluctuations, but have never resulted in total loss of a particular producing country s cocoa crop and/or exports. In the event that such a disruption would occur 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.

During 2010, the average cocoa futures contract prices increased compared with 2009, and traded in a range between $1.26 and $1.53 per pound, based on the IntercontinentalExchange futures contract. Cocoa futures prices during 2010 traded at prices that were near 30-year highs. The sustained high cocoa futures prices reflected concern over long-term growth capabilities in the Ivory Coast and continued interest in commodities as an investment by various hedge funds. The table below shows annual average cocoa prices, and the highest and lowest monthly averages for each of the calendar years indicated. The prices are the monthly averages of the quotations at noon of the three active futures trading contracts closest to maturity on the IntercontinentalExchange.

	Cocoa Futures Contract Prices (dollars per pound)				
	2010	**2009**	**2008**	**2007**	**2006**
Annual Average	**$ 1.36**	$ 1.28	$ 1.19	$ .86	$ .70
High	**1.53**	1.52	1.50	.95	.75
Low	**1.26**	1.10	.86	.75	.67

Source: International Cocoa Organization Quarterly Bulletin of Cocoa Statistics

Our costs will not necessarily reflect market price fluctuations because of our forward purchasing and hedging practices, premiums and discounts reflective of varying delivery times, and supply and demand for our specific varieties and grades of cocoa liquor, cocoa butter and cocoa powder. As a result, the average futures contract prices are not necessarily indicative of our average costs.

The Food, Conservation and Energy Act of 2008, which is a five-year farm bill, impacts the prices of sugar, corn, peanuts and dairy products because it sets price support levels for these commodities.

During 2010, prices for dairy products started the year slightly above $.14 per pound and increased to approximately $.18 per pound on a class II fluid milk basis. Prices are stronger in the face of strong demand for dairy products and tight supply of butterfat. Our costs for certain dairy products may not necessarily reflect market price fluctuations because of our forward purchasing practices.

The price of sugar is subject to price supports under U.S. farm legislation. This legislation establishes import quotas and duties to support the price of sugar. As a result, sugar prices paid by users in the U.S. are currently substantially higher than prices on the world sugar market. In 2010, sugar supplies in the U.S. were negatively impacted by government import restrictions, strong demand and high world market prices. As a result, refined sugar prices increased significantly, trading in a range from $.48 to $.66 per pound. Our costs for sugar will not necessarily reflect market price fluctuations primarily because of our forward purchasing and hedging practices.

Peanut prices in the U.S. began the year around $.46 per pound and increased late in the year to $.56 per pound due to the subpar yield for the current year s crop. Almond prices began the year at $1.95 per pound and increased to $2.40 per pound during the year driven by strong demand. Our costs for peanuts and almonds will not necessarily reflect market price fluctuations because of our forward purchasing practices.

We attempt to minimize the effect of future price fluctuations related to the purchase of major raw materials and certain energy requirements primarily through forward purchasing to cover our future requirements, generally for periods from 3 to 24 months. We enter into futures contracts to manage price risks for cocoa products, sugar, corn sweeteners, natural gas, fuel oil and certain dairy products. However, the dairy futures markets are not as developed as many of the other commodities futures markets and, therefore, generally it is difficult to hedge our costs for dairy products by entering into futures contracts and other derivative instruments to extend coverage for long periods of time. Currently, active futures contracts are not available for use in pricing our other major raw material requirements. 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. In addition, we contract with third party suppliers to source certain ingredients. We enter into manufacturing contracts with third parties to improve our strategic competitive position and determine 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. We sell our brands in highly competitive markets with many other multinational, national, regional and local firms. Some of our competitors are much larger firms that have greater resources and more substantial international operations.

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 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 2010
Société des Produits Nestlé SA	*KIT KAT* *ROLO*	United States	Minimum unit volume sales exceeded in 2010
Huhtamäki Oy affiliate	*GOOD & PLENTY* *HEATH* *JOLLY RANCHER* *MILK DUDS* *PAYDAY* *WHOPPERS*	Worldwide	None

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.

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 in respect to our total annual sales, nor are the changes, from time to time, significant.

Research and Development

We engage in a variety of research and development activities. 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 assures 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 to assure 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.

Environmental Considerations

We made routine operating and capital expenditures during 2010 to comply with environmental laws and regulations. These expenditures were not material with respect to our results of operations, capital expenditures, earnings or competitive position.

Employees

As of December 31, 2010, we employed approximately 11,300 full-time and 2,200 part-time employees worldwide. Collective bargaining agreements covered approximately 4,800 employees. During 2011, agreements will be negotiated for certain employees at five facilities, primarily outside of the United States, comprising approximately 52% 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 15.2% for 2010, 14.3% for 2009 and 14.4% for 2008. The percentage of total consolidated assets outside of the United States as of December 31, 2010 was 14.8% and as of December 31, 2009 was 17.5%. Operating profit margins vary among individual products and product groups.

Corporate Social Responsibility

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

In 2010, we issued our first corporate social responsibility (CSR) report outlining our key programs and our 2009 results in economic, environmental and social performance indicators. The report is based on the Global Reporting Initiative standard. In the report, we also identified priority areas and set targets for future performance in our four CSR pillars: environment, community, workplace and marketplace.

Our environmental stewardship programs continue to reduce our impact on the environment. These programs focus on decreasing waste generation at our facilities, improving our packaging sustainability, and reducing greenhouse gas emissions by lowering energy consumption and improving the efficiency of the transportation network. For Earth Day in 2010, we held an employee engagement event to promote resource conservation for our over 13,000 global employees.

We participated in the Carbon Disclosure Project for the second year. The Carbon Disclosure Project, primarily intended as an investor information tool, is an independent not-for-profit organization holding the largest database of primary corporate climate change information in the world. Through this submission, we assessed the impact of climate change on our business as well as our plans to address the impact of climate change on Hershey s operations around the world.

We continue our leadership role in improving the lives of cocoa farming families through our active engagement and financial support for the World Cocoa Foundation, the International Cocoa Initiative, Farmer Field Schools, the Sustainable Tree Crops program and other key initiatives.

We continue our top tier safety performance in our workplaces, where employee safety and wellness are our focus. Our employees, at all our locations worldwide, engage in our CSR programs and initiatives through communication, education and CSR events.

Our employees and retirees 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. Our focus on Kids and Kids at Risk is supported through 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 of the organizations we support.

In our marketplace we focus on promoting fair and ethical business dealings. We continue to invest in our quality management system to ensure product quality and food safety remain our top priorities. We implemented significant initiatives encompassing our entire value chain in 2010. We revised and issued our Supplier Code of Conduct which outlines our supplier expectations with regard to legal compliance and business integrity; social and working conditions; environment and food safety. In response to the growing concern with nutrition and obesity, we, along with 15 other food manufacturers and retailers, founded The Healthy Weight Commitment Foundation, a national, multi-year effort designed to help reduce obesity especially childhood obesity by 2015.

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. 20549-0213. 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 phone number for information about the operation of the SEC Office of Investor Education and Advocacy is 202-551-8090.

We have a Code of Ethical Business Conduct that applies to our Board of Directors, 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 within four business days. In the case of a waiver, such information will include the name of the person to whom the waiver applied, along with the date and type of waiver.

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 because of the nature of our 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 and potential, among others. Among the factors that could cause our actual re differ materially from the results projected in our forward-looking statements 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, might negatively impact 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 results of operations and financial condition.

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. 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 results of operations and financial condition.

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.

Our largest customer, McLane Company, Inc., accounted for approximately 22.1% of our total net sales in 2010 reflecting the continuing consolidation of our customer base. In this environment, there continue to be competitive product and pricing pressures, 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. 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. Some of our competitors are much larger firms 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 supply chain could impair our ability to produce or deliver our finished products, resulting in a negative impact on our operating results.

Disruption to our manufacturing operations or our supply chain could result from, but are not limited to, the following:

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

We take adequate precautions to mitigate the impact of possible disruptions, and have plans in place to manage such events if they were to occur. If we are unable, or if it is not financially feasible, to effectively mitigate the likelihood or potential impact of such disruptive events, our results of operations and financial condition could be negatively impacted.

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

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 could fluctuate unexpectedly and adversely impact our business.

In 2010, we derived approximately 15.2% of our net sales from customers located outside of the United States. Some of our assets are also located outside of the United States. As part of our global growth strategy, we are increasing our investments outside of the United States, particularly in Mexico, 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;
- Difficulties and costs associated with compliance and enforcement of remedies under a wide variety of complex laws, treaties and regulations;
- Different regulatory structures and 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; and

Failure to gain sufficient profitable scale in certain international markets resulting in losses from impairment or sale of assets.

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

Information technology is an important part of our business operations. We use information technology to manage business processes, collect and interpret business data and communicate internally and externally with employees, suppliers, customers and others. We have backup systems and business continuity plans in place; however, a disruption or failure could have a negative impact on our operations or business reputation. Failure of our systems to function as intended could cause transaction 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 the investigation by government regulators of alleged pricing practices by members of the confectionery industry could impact our reputation, the regulatory environment under which we operate, and our operating results.

Government regulators are investigating alleged pricing practices by members of the confectionery industry in certain jurisdictions. We are cooperating fully with all relevant authorities. We are also party to a number of civil antitrust suits in the United States and Canada. These allegations could have a negative impact on our Company s reputation. We also may be required to incur defense costs in litigation and/or be subject to fines or damages. In addition, our costs could increase if we became subject to new or additional government-mandated regulatory controls. These possible actions could negatively impact our future operating results.

Pension costs or funding requirements could increase at a higher than anticipated rate.

We sponsor a number of defined benefit pension plans. Changes in interest rates or in the market value of plan assets could affect the funded status of our pension plans. This could cause volatility in our benefits costs and increase future funding requirements for our pension plans. Additionally, we could incur pension settlement losses if a significant number of employees who have retired or have left the Company decide to withdraw substantial lump sums from their pension accounts. A significant increase in pension expense, in pension settlement losses or in future funding requirements could have a negative impact on our results of operations, financial condition and cash flows. For more information, refer to page 43.

Implementation of our Project Next Century program may not occur within the anticipated timeframe and/or may exceed our cost estimates. In addition, annual savings from this initiative may be less than we expect.

Completion of the Project Next Century program is subject to multiple operating and executional risks, including coordination of manufacturing changes and production line startups, among others. If we are not able to complete the program initiatives within the anticipated timeframe and within our cost estimates and/or if expected cost reductions from efficiency improvements are not realized, our results of operations and financial condition could be negatively impacted. We estimate that the Project Next Century program will incur pre-tax charges and non-recurring project implementation costs in the $140 million to $170 million range over the three-year implementation period. When fully implemented, Project Next Century is expected to provide annual cost savings from efficiency improvements of $60 million to $80 million.

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	Manufacturing	confectionery products and pantry items	Own
	(3 principal plants)*			
	Lancaster, Pennsylvania	Manufacturing	confectionery products	Own
	Robinson, Illinois	Manufacturing	confectionery products, snack 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	Mississauga, Ontario	Distribution		Lease
Mexico	Monterrey, Mexico	Manufacturing	confectionery products	Own

* In June 2010, we announced Project Next Century. As part of Project Next Century, production will transition from our manufacturing facility at 19 East Chocolate Avenue in Hershey, Pennsylvania, to a planned expansion of our West Hershey facility. For more information, refer to Item 7. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Business Realignment and Impairment Charges.*

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. Many additions and improvements have been made to these facilities over the years and they include equipment of the latest type and technology.

Item 3. ***LEGAL PROCEEDINGS***

In connection with its pricing practices, the Company is the subject of an antitrust investigation by the Canadian Competition Bureau. In addition, the U.S. Department of Justice notified the Company that it opened an inquiry but has not requested any information or documents. The European Commission had requested information, but subsequently informed the Company that it had closed its file. We also are party to approximately 90 related civil antitrust suits in the United States and 14 in Canada. Certain of these claims contain class action allegations, instituted on behalf of direct purchasers of our products as well as indirect purchasers that purchase our products for use or for resale. These suits allege conspiracies in restraint of trade in connection with the pricing practices of the Company. Several other chocolate and confectionery companies are the subject of investigations and/or inquiries by the government entities referenced above and have also been named as defendants in the same litigation. One Canadian wholesaler is also a subject of the Canadian investigation. While it is not feasible to predict the final outcome of these proceedings, in our opinion they should not have a material adverse effect on the financial position, liquidity or results of operations of the Company. The Company is cooperating with the government investigations and inquiries and intends to defend the lawsuits vigorously.

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

Item 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

Not applicable.

PART II

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

We paid $283.4 million in cash dividends on our Common Stock and Class B Common Stock (Class B Stock) in 2010 and $263.4 million in 2009. The annual dividend rate on our Common Stock in 2010 was $1.28 per share.

On January 31, 2011, our Board of Directors declared a quarterly dividend of $0.345 per share of Common Stock payable on March 15, 2011, to stockholders of record as of February 25, 2011. It is the Company s 325th consecutive Common Stock dividend. A quarterly dividend of $0.3125 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 425.1 million shares of our Common Stock were traded during 2010. The Class B Stock is not publicly traded.

The closing price of our Common Stock on December 31, 2010 was $47.15. There were 39,132 stockholders of record of our Common Stock and our Class B Stock as of December 31, 2010.

The following table shows the dividends paid per share of Common Stock and Class B Stock and the price range of the Common Stock for each quarter of the past 2 years:

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
2010				
1st Quarter	**$ .3200**	**$ .2900**	**$ 43.58**	**$ 35.76**
2nd Quarter	**.3200**	**.2900**	**52.10**	**42.79**
3rd Quarter	**.3200**	**.2900**	**51.67**	**45.31**
4th Quarter	**.3200**	**.2900**	**51.75**	**45.66**
Total	**$ 1.2800**	**$ 1.1600**		

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
2009				
1st Quarter	$ .2975	$ .2678	$ 38.23	$ 30.27
2nd Quarter	.2975	.2678	37.83	33.70
3rd Quarter	.2975	.2678	42.25	35.78
4th Quarter	.2975	.2678	41.62	35.05
Total	$ 1.1900	$ 1.0712		

* NYSE-Composite Quotations for Common Stock by calendar quarter.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Issuer Purchases of Equity Securities

Purchases of equity securities during the fourth quarter of the fiscal year ended December 31, 2010:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1) (in thousands of dollars)
October 4 through October 31, 2010		$		$ 100,017
November 1 through November 28, 2010	670,999	$ 46.41		$ 100,017
November 29 through December 31, 2010	96,774	$ 46.69		$ 100,017
Total	767,773	$ 46.45		

(1) In December 2006, our Board of Directors approved a $250 million share repurchase program.

Performance Graph

The following graph compares our cumulative total stockholder 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.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*

THE HERSHEY COMPANY, S&P 500 INDEX AND

S&P 500 PACKAGED FOODS INDEX

* Hypothetical $100 invested on December 31, 2005 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	2010	2009	2008	2007	2006	2005
Summary of Operations							
Net Sales	3.3%	$ **5,671,009**	5,298,668	5,132,768	4,946,716	4,944,230	4,819,827
Cost of Sales	1.9%	$ **3,255,801**	3,245,531	3,375,050	3,315,147	3,076,718	2,956,682
Selling, Marketing and Administrative	9.3%	$ **1,426,477**	1,208,672	1,073,019	895,874	860,378	912,986
Business Realignment and Impairment Charges, Net	(2.9)%	$ **83,433**	82,875	94,801	276,868	14,576	96,537
Interest Expense, Net	1.9%	$ **96,434**	90,459	97,876	118,585	116,056	87,985
Provision for Income Taxes	1.5%	$ **299,065**	235,137	180,617	126,088	317,441	277,090
Net Income	0.9%	$ **509,799**	435,994	311,405	214,154	559,061	488,547
Net Income Per Share:							
Basic Class B Stock	2.4%	$ **2.08**	1.77	1.27	.87	2.19	1.85
Diluted Class B Stock	2.4%	$ **2.07**	1.77	1.27	.87	2.17	1.84
Basic Common Stock	2.2%	$ **2.29**	1.97	1.41	.96	2.44	2.05
Diluted Common Stock	2.3%	$ **2.21**	1.90	1.36	.93	2.34	1.97
Weighted-Average Shares Outstanding:							
Basic Common Stock		**167,032**	167,136	166,709	168,050	174,722	183,747
Basic Class B Stock		**60,708**	60,709	60,777	60,813	60,817	60,821
Diluted		**230,313**	228,995	228,697	231,449	239,071	248,292
Dividends Paid on Common Stock	4.6%	$ **213,013**	198,371	197,839	190,199	178,873	170,147
Per Share	6.6%	$ **1.28**	1.19	1.19	1.135	1.03	.93
Dividends Paid on Class B Stock	6.6%	$ **70,421**	65,032	65,110	62,064	56,256	51,088
Per Share	6.7%	$ **1.16**	1.0712	1.0712	1.0206	.925	.84
Net Income as a Percent of Net Sales, GAAP Basis		**9.0%**	8.2%	6.1%	4.3%	11.3%	10.1%
Non-GAAP Adjusted Income as a Percent of Net Sales[a]		**10.4%**	9.4%	8.4%	9.7%	11.5%	11.7%
Depreciation	(3.2)%	$ **169,677**	157,996	227,183	292,658	181,038	200,132
Advertising	25.6%	$ **391,145**	241,184	161,133	127,896	108,327	125,023
Payroll	(0.2)%	$ **641,756**	613,568	645,456	645,083	645,480	647,825
Year-end Position and Statistics							
Capital Additions	(0.2)%	$ **179,538**	126,324	262,643	189,698	183,496	181,069
Capitalized Software Additions	10.6%	$ **21,949**	19,146	20,336	14,194	15,016	13,236
Total Assets	0.0%	$ **4,272,732**	3,675,031	3,634,719	4,247,113	4,157,565	4,262,699
Short-term Debt and Current Portion of Long-term Debt	(19.0)%	$ **285,480**	39,313	501,504	856,392	843,998	819,115
Long-term Portion of Debt	10.3%	$ **1,541,825**	1,502,730	1,505,954	1,279,965	1,248,128	942,755
Stockholders Equity	(1.6)%	$ **937,601**	760,339	349,944	623,520	683,423	1,016,380
Full-time Employees		**11,300**	12,100	12,800	12,400	12,800	13,750
Stockholders Data							
Outstanding Shares of Common Stock and Class B Stock at Year-end		**227,030**	227,998	227,035	227,050	230,264	240,524
Market Price of Common Stock at Year-end	(3.1)%	$ **47.15**	35.79	34.74	39.40	49.80	55.25
Range During Year		**$ 52.10-35.76**	42.25-30.27	44.32-32.10	56.75-38.21	57.65-48.20	67.37-52.49

(a) Non-GAAP Adjusted Income as a Percent of Net Sales is calculated by dividing adjusted non-GAAP Income by Net Sales. A reconciliation of Net Income presented in accordance with U.S. generally accepted accounting principles (GAAP) to adjusted non-GAAP Income is provided on pages 20 and 21, along with the reasons why we believe that the use of adjusted non-GAAP financial measures provides useful information to investors.

Item 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

EXECUTIVE OVERVIEW

Results for the year ended December 31, 2010 were strong, reflecting our continued focus on our major strategic initiatives to deliver sustainable long-term growth in the evolving marketplace. Net sales and earnings per share increased at rates exceeding our growth targets, even as the economic environment continued to be challenging. Our decision to invest in our business through cost savings initiatives, and our consumer-driven approach to core brand investments contributed to our strong financial performance and improved market share in 2010.

Net sales increased 7.0% compared with 2009 driven primarily by volume gains both in the United States and international markets, as we continue to execute in the marketplace. Advertising expense increased over 60% versus 2009, with a continued focus on brand building and go-to-market strategies for the U.S. and key international markets. Net income and earnings per share-diluted also increased as the result of our investment initiatives. We generated strong cash flow from operations and our financial position remains solid.

Adjusted Non-GAAP Financial Measures

Our Management s Discussion and Analysis of Financial Condition and Results of Operations section includes certain measures of financial performance that are not defined by U.S. generally accepted accounting principles (GAAP). For each of these non-GAAP financial measures, we are providing below (1) the most directly comparable GAAP measure; (2) a reconciliation of the differences between the non-GAAP measure and the most directly comparable GAAP measure; (3) an explanation of why our management believes these non-GAAP measures provide useful information to investors; and (4) additional purposes for which we use these non-GAAP measures.

We believe that the disclosure of these non-GAAP measures provides investors with a better comparison of our year-to-year operating results. We exclude the effects of certain items from Income before Interest and Income Taxes (EBIT), Net Income and Income per Share-Diluted-Common Stock (EPS) when we evaluate key measures of our performance internally, and in assessing the impact of known trends and uncertainties on our business. We also believe that excluding the effects of these items provides a more balanced view of the underlying dynamics of our business.

Adjusted non-GAAP financial measures exclude the impacts of charges or credits recorded during the last six years associated with our business realignment initiatives and impairment charges related to goodwill and certain trademarks.

For the years ended December 31,		**2010**			**2009**	
In millions of dollars except per share amounts	**EBIT**	**Net Income**	**EPS**	**EBIT**	**Net Income**	**EPS**
Results in accordance with GAAP	**$ 905.3**	**$ 509.8**	**$ 2.21**	$ 761.6	$ 436.0	$ 1.90
Adjustments:						
Business realignment charges included in cost of sales	**13.7**	**8.4**	**.04**	10.1	6.3	.03
Business realignment charges included in selling, marketing and administrative (SM&A)	**1.5**	**.9**		6.1	3.8	.02
Business realignment and impairment charges, net	**83.4**	**68.6**	**.30**	82.9	50.7	.22
Adjusted non-GAAP results	**$ 1,003.9**	**$ 587.7**	**$ 2.55**	$ 860.7	$ 496.8	$ 2.17

For the years ended December 31,	2008			2007		
In millions of dollars except per share amounts	EBIT	Net Income	EPS	EBIT	Net Income	EPS
Results in accordance with GAAP	$ 589.9	$ 311.4	$ 1.36	$ 458.8	$ 214.2	$ .93
Adjustments:						
Business realignment charges included in cost of sales	77.8	53.4	.23	123.1	80.9	.35
Business realignment charges included in SM&A	8.1	4.9	.02	12.6	7.8	.03
Business realignment and impairment charges, net	94.8	60.8	.27	276.9	178.9	.77
Adjusted non-GAAP results	$ 770.6	$ 430.5	$ 1.88	$ 871.4	$ 481.8	$ 2.08

For the years ended December 31,	2006			2005		
In millions of dollars except per share amounts	EBIT	Net Income	EPS	EBIT	Net Income	EPS
Results in accordance with GAAP	$ 992.6	$ 559.1	$ 2.34	$ 853.6	$ 488.5	$ 1.97
Adjustments:						
Business realignment (credits) charges included in cost of sales	(3.2)	(2.0)	(.01)	22.5	13.4	.05
Business realignment charges included in SM&A	.3	.2				
Business realignment and impairment charges, net	14.5	9.3	.04	96.5	60.7	.25
Adjusted non-GAAP results	$ 1,004.2	$ 566.6	$ 2.37	$ 972.6	$ 562.6	$ 2.27

	Adjusted Non-GAAP Results		
Key Annual Performance Measures	**2010**	**2009**	**2008**
Increase in Net Sales	**7.0%**	3.2%	3.8%
Increase (decrease) in adjusted EBIT	**16.6%**	11.7%	(11.6)%
Improvement (decline) in adjusted EBIT Margin in basis points (bps)	**150bps**	120bps	(260)bps
Increase (decrease) in adjusted EPS	**17.5%**	15.4%	(9.6)%

SUMMARY OF OPERATING RESULTS

Analysis of Selected Items from Our Income Statement

For the years ended December 31, **In millions of dollars except per share amounts**	**2010**	**2009**	**2008**	**Percent Change Increase (Decrease)** **2010-2009**	 **2009-2008**
Net Sales	**$ 5,671.0**	$ 5,298.7	$ 5,132.8	7.0%	3.2%
Cost of Sales	**3,255.8**	3,245.5	3,375.1	0.3	(3.8)
Gross Profit	**2,415.2**	2,053.2	1,757.7	17.6	16.8
Gross Margin	***42.6%***	*38.7%*	*34.2%*		
SM&A Expense	**1,426.5**	1,208.7	1,073.0	18.0	12.6
SM&A Expense as a percent of sales	***25.2%***	*22.8%*	*20.9%*		
Business Realignment and Impairment Charges, Net	**83.4**	82.9	94.8	0.7	(12.6)
EBIT	**905.3**	761.6	589.9	18.9	29.1
EBIT Margin	***16.0%***	*14.4%*	*11.5%*		
Interest Expense, Net	**96.4**	90.5	97.9	6.6	(7.6)
Provision for Income Taxes	**299.1**	235.1	180.6	27.2	30.2
Effective Income Tax Rate	***37.0%***	*35.0%*	*36.7%*		
Net Income	**$ 509.8**	$ 436.0	$ 311.4	16.9	40.0
Net Income Per Share Diluted	**$ 2.21**	$ 1.90	$ 1.36	16.3	39.7

Net Sales

2010 compared with 2009

Net sales increased 7.0% due to sales volume increases of approximately 4%, primarily for core brands in the U.S. and sales of new products. Favorable price realization increased net sales by over 2%. Our international businesses contributed to sales growth during the year as a result of sales volume gains or, in certain markets, favorable price realization, partially offset by sales volume declines. Overall, sales volume increased for our international business compared with 2009. The favorable impact of foreign currency exchange rates increased net sales by about 1%.

2009 compared with 2008

The increase in net sales resulted from list price increases and reduced rates of promotional allowances that resulted in favorable price realization of approximately 10%. These increases were partially offset by sales volume declines of approximately 6% associated with pricing elasticity and the rationalization of certain products and businesses in the United States. Net sales growth was primarily contributed by core brands, particularly *Hershey s*, *Reese s*, *Twizzlers* and *Kit Kat*, which benefited from our consumer-driven strategy, including advertising and in-store selling, merchandising and programming. Sales increases in local currency for our international businesses, particularly in Mexico, Canada, and Brazil, were more than offset by the unfavorable impact of foreign currency exchange rates which reduced total net sales by approximately 1.0%. The acquisition of Van Houten Singapore increased 2009 net sales by $12.0 million, or 0.2%.

Key U.S. Marketplace Metrics

For th