

# Specimen Financial Statements: Hershey Foods Corporation

## HERSHEY FOODS CORPORATION CONSOLIDATED STATEMENTS OF INCOME

	2004	2003	2002
<i>For the years ended December 31.</i>			
In thousands of dollars except per share amounts	\$4,429,248	\$4,172,551	\$4,120,317
<b>Net Sales</b>			
Costs and Expenses:	2,679,531	2,544,726	2,561,052
Cost of sales	847,540	816,442	833,426
Selling, marketing and administrative	—	23,357	27,552
Business realignment and asset impairments, net	—	(8,330)	—
Gain on sale of business	3,527,071	3,376,195	3,422,030
Total costs and expenses	902,177	796,356	698,287
<b>Income before Interest and Income Taxes</b>	66,533	63,529	60,722
Interest expense, net	835,644	732,827	637,565
<b>Income before Income Taxes</b>	244,765	267,875	233,987
Provision for income taxes	590,879	464,952	403,578
<b>Income before Cumulative Effect of Accounting Change</b>	—	7,368	—
Cumulative effect of accounting change, net of \$.933 tax benefit	\$ 590,879	\$ 457,584	\$ 403,578
<b>Net Income</b>			
<b>Earnings Per Share—Basic—Common Stock</b>			
Income before Cumulative Effect of Accounting Change	\$ 2.38	\$ 1.81	\$ 1.51
Cumulative Effect of Accounting Change, net of \$.02 Tax Benefit	—	.03	—
<b>Net Income</b>	\$ 2.38	\$ 1.78	\$ 1.51
<b>Earnings Per Share—Basic—Class B Common Stock</b>			
Income before Cumulative Effect of Accounting Change	\$ 2.17	\$ 1.64	\$ 1.37
Cumulative Effect of Accounting Change, net of \$.02 Tax Benefit	—	.03	—
<b>Net Income</b>	\$ 2.17	\$ 1.61	\$ 1.37
<b>Earnings Per Share—Diluted</b>			
Income before Cumulative Effect of Accounting Change	\$ 2.30	\$ 1.76	\$ 1.47
Cumulative Effect of Accounting Change, net of \$.02 Tax Benefit	—	.03	—
<b>Net Income</b>	\$ 2.30	\$ 1.73	\$ 1.47
<b>Cash Dividends Paid Per Share:</b>			
Common Stock	\$ .8350	\$ .7226	\$ .6900
Class B Common Stock	.7576	.6526	.5675

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

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**HERSHEY FOODS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

December 31,	2004	2003
In thousands of dollars		
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 54,837	\$ 114,793
Accounts receivable—trade	408,930	407,612
Inventories	557,180	492,859
Deferred income taxes	46,503	13,285
Prepaid expenses and other	<u>114,991</u>	<u>103,020</u>
Total current assets	1,182,441	1,131,569
<b>Property, Plant and Equipment, Net</b>	<b>1,682,698</b>	<b>1,661,939</b>
<b>Goodwill</b>	<b>463,947</b>	<b>388,960</b>
<b>Other Intangibles</b>	<b>125,233</b>	<b>38,511</b>
<b>Other Assets</b>	<b><u>343,212</u></b>	<b><u>361,561</u></b>
Total assets	<b><u>\$ 3,797,531</u></b>	<b><u>\$ 3,582,540</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 148,686	\$ 132,222
Accrued liabilities	472,096	416,181
Accrued income taxes	42,280	24,898
Short-term debt	343,277	12,032
Current portion of long-term debt	<u>279,043</u>	<u>477</u>
Total current liabilities	1,285,382	585,810
<b>Long-term Debt</b>	<b>690,602</b>	<b>968,499</b>
<b>Other Long-term Liabilities</b>	<b>403,356</b>	<b>370,776</b>
<b>Deferred Income Taxes</b>	<b><u>328,889</u></b>	<b><u>377,589</u></b>
Total liabilities	<b><u>2,708,229</u></b>	<b><u>2,302,674</u></b>
<b>Stockholders' Equity:</b>		
Preferred Stock, shares issued: none in 2004 and 2003	—	—
Common Stock, shares issued: 299,060,235 in 2004 and 149,528,776 on a pre-split basis in 2003	299,060	149,528
Class B Common Stock, shares issued: 60,841,509 in 2004 and 30,422,096 on a pre-split basis in 2003	60,841	30,422
Additional paid-in capital	28,614	4,034
Unearned ESOP compensation	(6,387)	(9,580)
Retained earnings	3,469,169	3,263,988
Treasury—Common Stock shares, at cost:		
113,313,827 in 2004 and 50,421,139 on a pre-split basis in 2003	(2,762,304)	(2,147,441)
Accumulated other comprehensive income (loss)	<u>309</u>	<u>(11,085)</u>
Total stockholders' equity	1,089,302	1,279,866
Total liabilities and stockholders' equity	<b><u>\$ 3,797,531</u></b>	<b><u>\$ 3,582,540</u></b>

The notes to consolidated financial statements are an integral part of these balance sheets.

**HERSHEY FOODS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended December 31,	2004	2003	2002
In thousands of dollars			
<b>Cash Flows Provided from (Used by)</b>			
<b>Operating Activities</b>	<b>\$ 590,879</b>	<b>\$ 457,584</b>	<b>\$ 403,578</b>
Net income			
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	189,665	180,567	177,908
Deferred income taxes	(81,931)	38,895	137,817
Gain on sale of business, net of tax of \$2,624	—	(5,706)	—
Business realignment initiatives, net of tax of \$9,988 and \$12,470, respectively	—	15,488	21,509
Cumulative effect of accounting change, net of tax of \$4,933	—	7,368	—
Changes in assets and liabilities, net of effects from business acquisitions and divestitures:			
Accounts receivable—trade	17,319	(36,636)	(9,250)
Inventories	(40,043)	9,095	8,843
Accounts payable	(11,266)	7,715	(8,542)
Other assets and liabilities	132,827	(81,427)	(106,520)
Net Cash Provided from Operating Activities	<u>797,450</u>	<u>592,943</u>	<u>625,343</u>
<b>Cash Flows Provided from (Used by)</b>			
<b>Investing Activities</b>	<b>(181,728)</b>	<b>(218,650)</b>	<b>(132,736)</b>
Capital additions	(14,158)	(18,404)	(11,836)
Capitalized software additions	(166,859)	—	—
Business acquisitions	—	20,049	12,000
Proceeds from divestitures	(362,745)	(217,005)	(132,572)
Net Cash (Used by) Investing Activities			
<b>Cash Flows Provided from (Used by)</b>			
<b>Financing Activities</b>	<b>331,245</b>	<b>897</b>	<b>4,130</b>
Net change in short-term borrowings	—	3,194	304
Long-term borrowings	(883)	(18,633)	(9,578)
Repayment of long-term debt	(205,747)	(184,686)	(167,821)
Cash dividends paid	79,634	55,120	86,491
Exercise of stock options	(81,933)	(85,347)	(158,507)
Incentive plan transactions	(616,977)	(329,433)	(84,194)
Repurchase of Common Stock	(494,661)	(558,888)	(329,175)
Net Cash (Used by) Financing Activities	(59,956)	(182,950)	163,596
(Decrease) Increase in Cash and Cash Equivalents	114,793	297,743	134,147
Cash and Cash Equivalents as of January 1	<u>\$ 54,837</u>	<u>\$ 114,793</u>	<u>\$ 297,743</u>
Cash and Cash Equivalents as of December 31	<u>\$ 66,151</u>	<u>\$ 65,347</u>	<u>\$ 64,343</u>
Interest Paid	289,607	207,672	57,495
Income Taxes Paid			

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

HERSHEY FOODS CORPORATION  
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Unearned ESOP Compensation	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
<b>In thousands of dollars</b>									
<b>Balance as of January 1, 2002</b>	\$ —	\$149,516	\$30,434	\$ 3,263	\$(15,967)	\$2,755,333	\$(1,689,243)	\$(86,132)	\$1,147,204
Net income						403,578		107,203	403,578
Other comprehensive income									107,203
Comprehensive income									510,781
Dividends:									(133,285)
Common Stock, \$63 per share				(298)		(34,536)			(34,536)
Class B Common Stock, \$5675 per share				(3,517)					(3,517)
Conversion of Class B Common Stock into Common Stock		12	(12)	1,145					
Incentive plan transactions							(34,790)		(34,790)
Exercise of stock options					3,193				3,193
Employee stock ownership trust/benefits transactions							(84,194)		(84,194)
Repurchase of Common Stock							(1,806,227)		(1,806,227)
<b>Balance as of December 31, 2002</b>	—	149,528	30,422	593	(12,774)	2,991,090	(1,806,227)	21,071	1,371,703
Net income						457,584		(32,156)	425,428
Other comprehensive (loss)									(144,985)
Comprehensive income									(39,701)
Dividends:									455
Common Stock, \$7226 per share									(8,262)
Class B Common Stock, \$6526 per share									4,661
Incentive plan transactions							(9,781)		(9,781)
Exercise of stock options									(329,433)
Employee stock ownership trust/benefits transactions					3,194				3,194
Repurchase of Common Stock							(2,147,441)		(2,147,441)
<b>Balance as of December 31, 2003</b>	—	149,528	30,422	4,034	(9,580)	3,263,988	(2,147,441)	(11,085)	1,279,866
Net income						550,879		11,394	562,273
Other comprehensive income									(159,658)
Comprehensive income									(46,089)
Dividends:									36
Common Stock, \$835 per share									25,362
Class B Common Stock, \$7576 per share									4,489
Two-for-one stock split									(616,977)
Conversion of Class B Common Stock into Common Stock		3	(3)						
Incentive plan transactions									36
Exercise of stock options									23,248
Employee stock ownership trust/benefits transactions									1,296
Repurchase of Common Stock									(28,614)
<b>Balance as of December 31, 2004</b>	—	299,060	60,541	28,614	\$(6,387)	\$3,469,169	\$(2,762,304)	\$ 309	\$1,089,302

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