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 **March 31, 2002**

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

# HERSHEY FOODS CORPORATION

100 Crystal A Drive
Hershey, PA 17033
Registrant's telephone number: **717-534-6799**

| State of Incorporation | IRS Employer Identification No. |
|---|---|
| **Delaware** | **23-0691590** |

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 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 - 106,059,131 shares, as of April 15, 2002. Class B Common Stock, $1 par value - 30,433,808 shares, as of April 15, 2002.

## PART I - FINANCIAL INFORMATION

## HERSHEY FOODS CORPORATION
## CONSOLIDATED STATEMENTS OF INCOME
**(in thousands except per share amounts)**

| | For the Three Months Ended | |
|---|---|---|
| | **March 31, 2002** | **April 1, 2001** |
| **Net Sales** | $ 988,506 | $ 988,002 |
| **Costs and Expenses:** | | |
| Cost of sales | 624,024 | 637,954 |
| Selling, marketing and administrative | 202,741 | 205,892 |
| Business realignment charge | 8,762 | - |
| Total costs and expenses | 835,527 | 843,846 |
| **Income before Interest and Income Taxes** | 152,979 | 144,156 |
| Interest expense, net | 15,465 | 17,297 |
| **Income before Income Taxes** | 137,514 | 126,859 |
| Provision for income taxes | 50,469 | 47,953 |
| **Net Income** | $ 87,045 | $ 78,906 |
| **Net Income Per Share-Basic** | $ .64 | $ .58 |
| **Net Income Per Share-Diluted** | $ .63 | $ .57 |
| **Average Shares Outstanding-Basic** | 136,707 | 136,750 |
| **Average Shares Outstanding-Diluted** | 138,219 | 138,227 |
| **Cash Dividends Paid per Share:** | | |
| Common Stock | $ .3025 | $ .2800 |
| Class B Common Stock | $ .2725 | $ .2525 |

The accompanying notes are an integral part of these statements.

**HERSHEY FOODS CORPORATION**
**CONSOLIDATED BALANCE SHEETS**
**March 31, 2002 AND DECEMBER 31, 2001**
**(in thousands of dollars)**

| **ASSETS** | **3/31/02 2002** | **12/31/01 2001** |
|---|---|---|
| **Current Assets:** | | |
| Cash and cash equivalents | $ 220,026 | $ 134,147 |
| Accounts receivable - trade | 292,226 | 361,726 |
| Inventories | 559,556 | 512,134 |
| Deferred income taxes | 83,198 | 96,939 |
| Prepaid expenses and other | 90,670 | 62,595 |
| Total current assets | 1,245,676 | 1,167,541 |
| **Property, Plant and Equipment, at cost** | 2,896,366 | 2,900,756 |
| Less-accumulated depreciation and amortization | (1,383,869) | (1,365,855) |
| Net property, plant and equipment | 1,512,497 | 1,534,901 |
| Goodwill | 388,691 | 388,702 |
| Other Intangibles | 40,298 | 40,426 |
| Other Assets | 137,382 | 115,860 |
| Total assets | $ 3,324,544 | $ 3,247,430 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current Liabilities:** | | |
| Accounts payable | $ 162,332 | $ 133,049 |
| Accrued liabilities | 372,495 | 462,901 |
| Accrued income taxes | 32,397 | 2,568 |
| Short-term debt | 7,045 | 7,005 |
| Current portion of long-term debt | 739 | 921 |
| Total current liabilities | 575,008 | 606,444 |
| **Long-term Debt** | 876,979 | 876,972 |
| Other Long-term Liabilities | 347,529 | 361,041 |
| Deferred Income Taxes | 266,112 | 255,769 |
| Total liabilities | 2,065,628 | 2,100,226 |
| **Stockholders' Equity:** | | |
| Preferred Stock, shares issued: none in 2002 and 2001 | --- | --- |
| Common Stock, shares issued: 149,517,064 in 2002 and 2001 | 149,516 | 149,516 |
| Class B Common Stock, shares issued: 30,433,808 in 2002 and 2001 | 30,434 | 30,434 |
| Additional paid-in capital | (2,686) | 3,263 |
| Unearned ESOP compensation | (15,169) | (15,967) |
| Retained earnings | 2,801,878 | 2,755,333 |
| Treasury-Common Stock shares at cost: 43,525,109 in 2002 and 44,311,870 in 2001 | (1,656,391) | (1,689,243) |
| Accumulated other comprehensive loss | (48,666) | (86,132) |
| Total stockholders' equity | 1,258,916 | 1,147,204 |
| **Total liabilities and stockholders' equity** | **$ 3,324,544** | **$ 3,247,430** |

**HERSHEY FOODS CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands of dollars)**

| | For the Three Months Ended | |
|---|---|---|
| | March 31, 2002 | April 1, 2001 |
| **Cash Flow Provided from (Used by) Operating Activities** | | |
| Net Income | $ 87,045 | $ 78,906 |
| Adjustments to Reconcile Net Income to Net Cash Provided from Operations: | | |
| Depreciation and amortization | 45,632 | 46,875 |
| Deferred income taxes | 15,891 | (4,141) |
| Business realignment initiatives | 5,698 | - |
| Changes in assets and liabilities: | | |
| Accounts receivable - trade | 69,500 | 71,161 |
| Inventories | (44,122) | (45,432) |
| Accounts payable | 29,283 | (1,296) |
| Other assets and liabilities | (88,103) | 106,472 |
| Net Cash Flows Provided from Operating Activities | 120,824 | 252,545 |
| **Cash Flows Provided from (Used by) Investing Activities** | | |
| Capital additions | (17,405) | (32,032) |
| Capitalized software additions | (2,297) | (1,125) |
| Other, net | 19,604 | 9,415 |
| Net Cash Flows (Used by) Investing Activities | (98) | (23,742) |
| **Cash Flows Provided from (Used by) Financing Activities** | | |
| Net increase (decrease) in short-term debt | 40 | (207,995) |
| Repayment of long-term debt | (214) | (76) |
| Cash dividends paid | (40,500) | (37,378) |
| Exercise of stock options | 55,569 | 15,134 |
| Incentive plan transactions | (49,742) | (4,203) |
| Net Cash Flows (Used by) Financing Activities | (34,847) | (234,518) |
| Increase (Decrease) in Cash and Cash Equivalents | 85,879 | (5,715) |
| Cash and Cash Equivalents, beginning of period | 134,147 | 31,969 |
| Cash and Cash Equivalents, end of period | $ 220,026 | $ 26,254 |
| Interest Paid | $ 23,766 | $ 30,109 |
| Income Taxes Paid | $ 1,342 | $ 1,852 |

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Hershey Foods Corporation and its subsidiaries (the "Corporation") after elimination of intercompany accounts and transactions. These statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2002, are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For more information, refer to the consolidated financial statements and notes included in the Corporation's 2001 Annual Report on Form 10-K.

Certain reclassifications have been made to prior year amounts to conform to the 2002 presentation. In accordance with final consensuses reached on various EITF Issues regarding the reporting of certain sales incentives, costs totaling $92.7 million previously reported in selling, marketing and administrative expense in 2001, have been reclassified as a reduction to net sales. In addition, certain freight billings totaling $.4 million previously reported in cost of sales in 2001, have been reclassified as an increase to net sales.

## 2. BUSINESS REALIGNMENT INITIATIVES

In late October 2001, the Corporation's Board of Directors approved a plan to improve the efficiency and profitability of the Corporation's operations. The plan included asset management improvements, product line rationalization, supply chain efficiency improvements, and a voluntary work force reduction program (collectively, "the business realignment initiatives"). The major components of the plan will be completed by the fourth quarter of 2002. For more information on the business realignment initiatives recorded in the fourth quarter of 2001, refer to the consolidated financial statements and notes included in the Corporation's 2001 Annual Report on Form 10-K.

During the first quarter of 2002, a charge to cost of sales and business realignment charges were recorded totaling $9.0 million before tax ($5.7 million after-tax or $.04 per share-diluted). The total included a charge to cost of sales of $.2 million associated with the relocation of manufacturing equipment and a business realignment charge of $8.8 million. Components of the $8.8 million pre-tax charge for these initiatives included $.1 million relating to product line rationalization, $.1 million relating to supply chain efficiency improvements, and $8.6 million relating to pension settlement costs associated with the voluntary work force reduction program (VWRP). Additional charges totaling approximately $23.8 million before tax, or $.11 per share-diluted, are expected to be recorded, as incurred, by the end of 2002, primarily related to additional pension settlement costs resulting from the VWRP and expenses associated with the relocation of manufacturing equipment.

**Asset Management Improvements**

During the first quarter of 2002, cash payments totaling $.4 million relating to outsourcing the manufacture of certain ingredients were recorded against the liability for business realignment initiatives. Also during the first quarter of 2002, asset write-offs totaling $1.8 million relating to outsourcing the manufacture of certain ingredients were recorded against the reserve for asset impairment write-downs associated with the business realignment initiatives.

**Product Line Rationalization**

During the first quarter of 2002, cash payments totaling $.4 million were recorded against the liability for business realignment initiatives and a net pre-tax charge of $.1 million was credited to the liability, relating primarily to the realignment of the Corporation's sales organizations. Product line rationalization plans include the sale or exit of certain businesses. Net sales associated with businesses to be sold or exited as part of the business realignment initiatives were approximately $8.1 million and $9.5 million in the first quarter of 2002 and 2001, respectively.

**Supply Chain Efficiency Improvements**

During the first quarter of 2002, cash payments totaling $.6 million relating primarily to the closure of the Palmyra, Pennsylvania plant were recorded against the liability for business realignment initiatives. In addition, a net pre-tax charge of $.1 million was credited to the liability in the first quarter of 2002 also relating to the closure of the Palmyra, Pennsylvania plant. During the first quarter of 2002, asset write-offs totaling $7.8 million relating to closure of the three manufacturing plants were recorded against the reserve for asset impairment write-downs associated with the business realignment initiatives which is included as part of accumulated depreciation. By the end of the first quarter of 2002, approximately 275 employees were terminated resulting in the payment of involuntary employee termination benefits of approximately $.5 million.

**Voluntary Work Force Reduction Program**
During the first quarter of 2002, cash payments totaling $5.5 million relating to the enhanced mutual separation program of the Corporation's VWRP and administrative expenses were recorded against the liability for business realignment initiatives. In addition, a net pre-tax charge of $8.6 million was credited to pension benefit liabilities during the first quarter of 2002 relating to pension settlement costs associated with departing employees electing a lump sum payment of their pension benefit under the early retirement program of the VWRP. Payments of pension and certain supplemental benefits were made from the assets of the Corporation's pension plan for salaried employees. During the first quarter of 2002, a reduction of approximately 500 employees resulted from the VWRP.

The following tables summarize the charges for certain business realignment initiatives in the fourth quarter of 2001 and the related activities completed through March 31, 2002:

| Accrued Liabilities | Balance December 31, 2001 | 2002 1st Qtr Utilization | New charges 1st Qtr 2002 | Balance March 31, 2002 |
|---|---|---|---|---|
| (In thousands of dollars) | | | | |
| Asset management improvements | $ 2,700 | $ (396) | $ - | $ 2,304 |
| Product line rationalization | 15,529 | (408) | 115 | 15,236 |
| Supply chain efficiency improvements | 8,300 | (623) | 100 | 7,777 |
| Voluntary work force reduction program | 8,860 | (5,541) | - | 3,319 |
| Total | $ 35,389 | $ (6,968) | $ 215 | $ 28,636 |

Cash payments totaling $7.0 million were recorded against the liability in the first quarter, primarily related to severance payments associated with the enhanced mutual separation program and supply chain efficiency improvements. Other cash payments recorded against the liability were related to outsourcing the manufacture of certain ingredients and the realignment of the Corporation's sales organizations. New charges during the quarter related to realignment of the Corporation's sales organizations and termination benefits.

| Asset Impairment Write-down | Balance December 31, 2001 | 2002 1st Qtr Utilization | New charges 1st Qtr 2002 | Balance March 31, 2002 |
|---|---|---|---|---|
| (In thousands of dollars) | | | | |
| Asset management improvements | $ 2,600 | $ (1,844) | $ - | $ 756 |
| Product line rationalization | 5,000 | - | - | 5,000 |
| Supply chain efficiency improvements | 37,700 | (7,807) | - | 29,893 |
| Total | $ 45,300 | $ (9,651) | $ - | $ 35,649 |

Asset write-offs of $9.7 million were recorded against the reserve during the quarter. This reserve was included as part of accumulated depreciation. The asset write-offs were associated with the outsourcing of manufacturing for certain ingredients and the closure of manufacturing facilities.

**3. INTEREST EXPENSE**
Interest expense, net consisted of the following:

| For the Three Months Ended (in thousands of dollars) | March 31, 2002 | April 1, 2001 |
|---|---|---|
| Interest expense | $ 16,573 | $ 18,541 |
| Interest income | (779) | (972) |
| Capitalized interest | (329) | (272) |
| Interest expense, net | $ 15,465 | $ 17,297 |

**4. NET INCOME PER SHARE**

A total of 43,525,109 shares were held as Treasury Stock as of March 31, 2002.

In accordance with Statement of Financial Accounting Standards No. 128 " *Earnings Per Share* ," Basic and Diluted Earnings per Share are computed based on the weighted-average number of shares of the Common Stock and the Class B Stock outstanding as follows:

| For the Three Months Ended<br>(in thousands of dollars except per share amounts) | March 31, 2002 | April 1, 2001 |
|---|---|---|
| Net income | $ 87,045 | $ 78,906 |
| Weighted-average shares-basic | 136,707 | 136,750 |
| Effect of dilutive securities: | | |
| Employee stock options | 1,431 | 1,450 |
| Performance and restricted stock units | 81 | 27 |
| Weighted-average shares - diluted | 138,219 | 138,227 |
| Net income per share - basic | $ 0.64 | $ 0.58 |
| Net income per share-diluted | $ 0.63 | $ 0.57 |

Employee stock options for 1,237,955 shares and 1,750,100 shares were anti-dilutive and were excluded from the earnings per share calculation for the three months ended March 31, 2002 and April 1, 2001, respectively.

**5. GOODWILL AND OTHER INTANGIBLE ASSETS**

The Corporation adopted Statement of Financial Accounting Standards No. 141, " *Business Combinations* " ("SFAS No. 141") as of July 1, 2001, and Statement of Financial Accounting Standards No. 142, " *Goodwill and Other Intangible Assets* " ("SFAS No. 142") as of January 1, 2002. The reassessment of the useful lives of intangible assets acquired on or before June 30, 2001 was completed during the first quarter of 2002. Amortization of goodwill resulting from business acquisitions of $388.7 million was discontinued as of January 1, 2002. Other intangible assets totaling $40.4 million as of January 1, 2002 primarily consisted of trademarks and patents obtained through business acquisitions. The useful lives of trademarks were determined to be indefinite and, therefore, amortization of these assets was discontinued as of January 1, 2002. Patents valued at a total of $9.0 million are being amortized over their remaining legal lives of approximately eighteen years.

Goodwill was assigned to reporting units and transitional impairment tests were performed for goodwill and other intangible assets during the first quarter of 2002. No impairment of assets was determined as a result of these tests. A reconciliation of reported net income to net income adjusted to reflect the impact of the discontinuance of the amortization of goodwill and other intangible assets for the three months ended April 1, 2001 is as follows:

| For the Three Months Ended<br>(in thousands of dollars except per share amounts) | March 31, 2002 | April 1, 2001 |
|---|---|---|
| **Reported net income:** | $ 87,045 | $ 78,906 |
| Add back: Goodwill amortization | | 2,913 |
| Add back: Trademark amortization | | 377 |
| Adjusted net income | $ 87,045 | $ 82,196 |
| **Basic earnings per share:** | | |
| Reported net income | $ .64 | $ .58 |
| Goodwill amortization | | .02 |
| Trademark amortization | | - |
| Adjusted net income | $ .64 | $ .60 |

**Diluted earnings per share:**

| **For the Three Months Ended (in thousands of dollars except per share amounts)** | **March 31, 2002** | **April 1, 2001** |
|---|---|---|
| Reported net income | $ .63 | $ .57 |
| Goodwill amortization | | .02 |
| Trademark amortization | | - |
| Adjusted net income | $ .63 | $ .59 |

**6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Corporation accounts for derivative instruments in accordance with Statement of Financial Accounting Standards No. 133, " *Accounting for Derivative Instruments and Hedging Activities* ," as amended. All derivative instruments currently utilized by the Corporation, including foreign exchange forward contracts, interest rate swap agreements and commodities futures contracts, are designated as cash flow hedges. For more information, refer to the consolidated financial statements and notes included in the Corporation's 2001 Annual Report on Form 10-K.

**7. COMPREHENSIVE INCOME**

Comprehensive income consisted of the following:

| **For the Three Months Ended (in thousands of dollars)** | **March 31, 2002** | **April 1, 2001** |
|---|---|---|
| Net income | $ 87,045 | $ 78,906 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 302 | (7,243) |
| Minimum pension liability adjustments, net of tax | 22,732 | - |
| Gains on cash flow hedging derivatives, net of tax | 17,534 | 66,291 |
| Add: Reclassification adjustments, net of tax | (3,102) | 4,230 |
| Other comprehensive income | 37,466 | 63,278 |
| Comprehensive income | $ 124,511 | $ 142,184 |

Reclassification adjustments from accumulated other comprehensive income to income, for gains or losses on cash flow hedging derivatives, were reflected in cost of sales. Pre-tax gains on cash flow hedging derivatives recognized in cost of sales as a result of hedge ineffectiveness were approximately $.5 million and $.8 million for the three months ended March 31, 2002 and April 1, 2001, respectively. No gains or losses on cash flow hedging derivatives were reclassified from accumulated other comprehensive income (loss) into income as a result of the discontinuance of a hedge because it became probable that a hedged forecasted transaction would not occur. There were no components of gains or losses on cash flow hedging derivatives that were recognized in income because such components were excluded from the assessment of hedge effectiveness.

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

| (In thousands of dollars) | Foreign Currency Translation Adjustments | Minimum Pension Liability Adjustments | Gains (Losses) on Cash Flow Hedging Derivatives | Reclassification Adjustments | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|---|
| Balance as of December 31, 2001 | $(62,545) | $(35,135) | $11,548 | $ - | $(86,132) |
| Current period credit (charge), gross | 302 | 37,950 | 27,524 | (4,900) | 60,876 |
| Income tax benefit (expense) | - | (15,218) | (9,990) | 1,798 | (23,410) |
| Balance as of March 31, 2002 | $(62,243) | $(12,403) | $29,082 | $(3,102) | $(48,666) |

As of March 31, 2002, the amount of net after-tax gains on cash flow hedging derivatives, including foreign exchange forward contracts, interest rate swap agreements and commodities futures contracts, expected to be reclassified into earnings in the next twelve months were approximately $14.9 million, compared to net after-tax losses on cash flow hedging derivatives to be reclassified into earnings in the next twelve months of $10.1 million as of April 1, 2001.

**8. INVENTORIES**

The majority of inventories are valued under the last-in, first-out (LIFO) method. The remaining inventories are stated at the lower of first-in, first-out (FIFO) cost or market. Inventories were as follows:

| | March 31, 2002 | December 31, 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| Raw materials | $ 212,494 | $ 160,343 |
| Goods in process | 52,459 | 51,184 |
| Finished goods | 346,981 | 354,100 |
| Inventories at FIFO | 611,934 | 565,627 |
| Adjustment to LIFO | (52,378) | (53,493) |
| Total inventories | $ 559,556 | $ 512,134 |

The increase in raw material inventories as of March 31, 2002 reflected the seasonal timing of deliveries to support manufacturing requirements. Raw material inventories were $212.5 million as of March 31, 2002 compared to $272.7 million as of April 1, 2001.

**9. LONG-TERM DEBT**

In August 1997, the Corporation filed a Form S-3 Registration Statement under which it could offer, on a delayed or continuous basis, up to $500 million of additional debt securities. As of March 31, 2002, $250 million of debt securities remained available for issuance under the August 1997 Registration Statement.

**10. 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 March 31, 2002 and December 31, 2001, because of the relatively short maturity of these instruments. The carrying value of long-term debt, including the current portion, was $877.7 million as of March 31, 2002, compared to a fair value of $942.6 million, based on quoted market prices for the same or similar debt issues.

As of March 31, 2002, the Corporation had foreign exchange forward contracts maturing in 2002 and 2003 to purchase $20.3 million in foreign currency, primarily British sterling and euros, and to sell $9.8 million in foreign currency, primarily Japanese yen, at contracted forward rates.

The fair value of foreign exchange forward contracts is estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences. As of March 31, 2002, the fair value of foreign exchange forward contracts approximated the contract value. The Corporation does not hold or issue financial instruments for trading purposes.

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements. In February 2001, the Corporation entered into interest rate swap agreements that effectively convert interest-rate-contingent rental payments on certain operating leases from a variable to a fixed rate of 6.1%. Any interest rate differential on interest rate swap agreements is recognized as an adjustment to interest expense over the term of each agreement. The fair value of interest rate swap agreements was a liability of $3.2 million and $2.7 million as of March 31, 2002 and December 31, 2001, respectively. The Corporation's risk related to interest rate swap agreements is limited to the cost of replacing such agreements at prevailing market rates.

**11. SHARE REPURCHASES**

In October 1999, the Corporation's Board of Directors approved a share repurchase program authorizing the repurchase of up to $200 million of the Corporation's Common Stock. Under this program, a total of 2,388,586 shares of Common Stock was purchased through March 31, 2002. As of March 31, 2002, a total of 43,525,109 shares were held as Treasury Stock and $84.2 million remained available for repurchases of Common Stock under the repurchase program.

## Management's Discussion and Analysis of Results of Operations and Financial Condition

## Results of Operations - First Quarter 2002 vs. First Quarter 2001

Consolidated net sales for the first quarter increased from $988.0 million in 2001 to $988.5 million in 2002. The nominal increase over the prior year primarily reflected higher sales resulting from: incremental sales from Visagis, the Brazilian chocolate and confectionery business acquired in July 2001; selected confectionery selling price increases; and increases in sales of base confectionery and grocery products in North America. These increases were substantially offset by lower sales resulting from higher promotion allowances and returns, discounts and allowances, the divestiture of the *Luden's* throat drop business in September 2001, and the timing of the acquisition of the Nabisco Inc. gum and mint business which resulted in incremental sales in the first quarter of 2001 compared to the same period of 2002.

The consolidated gross margin increased from 35.4% in 2001 to 36.9% in 2002. The increase reflected higher profitability resulting from the mix of confectionery items sold in 2002 compared with sales during 2001. Decreased costs for certain major raw materials, primarily milk and cocoa, reduced supply chain costs and selected confectionery selling price increases also contributed to the higher gross margin. The impact of these items was partially offset by higher promotion allowances and returns, discounts, and allowances, both of which were higher as a percent of sales compared to the prior year. Selling, marketing and administrative expenses decreased by 2% in 2002, primarily reflecting the elimination of goodwill amortization in 2002. Excluding the impact of goodwill amortization in 2001, selling, marketing and administrative expenses in 2002 were flat compared to 2001.

Net interest expense in the first quarter of 2002 was $1.8 million less than the comparable period of 2001, primarily reflecting a decrease in short-term interest expense due to a decrease in the average short-term borrowing rates and reduced average short-term borrowings.

Net income for the first quarter increased $8.1 million, or 10%, from 2001 to 2002, and net income per share - diluted increased $.06, or 11%. Excluding the after-tax effect of the business realignment initiatives recorded in 2002, as well as the after-tax effect of goodwill amortization in 2001, net income for the first quarter increased $10.5 million, or 13%, from 2001 to 2002, and net income per share - diluted increased $.08, or 14%.

### Business Realignment Initiatives

In late October 2001, the Corporation’s Board of Directors approved a plan to improve the efficiency and profitability of the Corporation’s operations. The plan included asset management improvements, product line rationalization, supply chain efficiency improvements, and a voluntary work force reduction program. As of March 31, 2002, there have been no significant changes to the estimated costs and savings for the business realignment initiatives. The major components of these initiatives remain on schedule for completion by the fourth quarter of 2002.

Asset management improvements included the decision to outsource the manufacture of certain ingredients and the related removal and disposal of machinery and equipment related to the manufacture of these ingredients. As a result of this outsourcing, the Corporation was able to significantly reduce raw material inventories, primarily cocoa beans and cocoa butter, in the fourth quarter of 2001. The remaining portion of the project was substantially completed during the first quarter of 2002.

Product line rationalization plans included the sale or exit of certain businesses, the discontinuance of certain non-chocolate confectionery products and the realignment of the Corporation’s sales organizations. Costs associated with the realignment of the sales organizations related primarily to sales office closings and terminating the use of certain sales brokers. During the first quarter of 2002, sales offices were closed as planned and the use of certain sales brokers was discontinued.

To improve supply chain efficiency and profitability, three manufacturing facilities, a distribution center and certain other facilities were planned to be closed. These included manufacturing facilities in Denver, Colorado; Pennsburg, Pennsylvania and Palmyra, Pennsylvania and a distribution center and certain minor facilities located in Oakdale, California. During the first quarter of 2002, the manufacturing facility in Palmyra, Pennsylvania was closed and additional costs were recorded, as incurred, relating to retention payments. In addition, asset write-offs relating to the closure of the three manufacturing plants were begun.

In October 2001, the Corporation offered a voluntary work force reduction program (VWRP) to certain eligible employees in the United States, Canada and Puerto Rico in order to reduce staffing levels and improve profitability. The VWRP consisted of an early retirement program which provided enhanced pension, post-retirement and certain supplemental benefits and an enhanced mutual separation program which provided increased severance and temporary medical benefits. A reduction of approximately 500 employees occurred during the first quarter of 2002 as a result of the VWRP. Additional pension settlement costs of $8.6 million before tax were recorded in the first quarter of 2002 principally associated with lump sum payments of pension benefits.

**Liquidity and Capital Resources**

Historically, the Corporation’s major source of financing has been cash generated from operations. Domestic seasonal working capital needs, which typically peak during the summer months, generally have been met by issuing commercial paper. During the first quarter of 2002, the Corporation’s cash and cash equivalents increased by $85.9 million. Cash provided from operations was sufficient to fund dividend payments of $40.5 million and capital expenditures and capitalized software additions totaling $19.7 million. Cash used by other assets and liabilities of $88.1 million primarily reflected a pension plan contribution and changes to liabilities associated with taxes and incentive compensation. Cash provided from other assets and liabilities in the first quarter of 2001 of $106.5 million was principally the result of commodities transactions and increased taxes payable, partially offset by a pension plan contribution.

In order to improve the funded status of the Corporation’s domestic pension plans, a contribution of $75.0 million was made in February 2001. Additional contributions of $95.0 million and $75.0 million were made in December 2001 and March 2002, respectively, to fund payments related to the early retirement program and to improve the funded status. These contributions were funded by cash from operations.

The ratio of current assets to current liabilities was 2.2:1 as of March 31, 2002, and 1.9:1 as of December 31, 2001. The Corporation’s capitalization ratio (total short-term and long-term debt as a percent of stockholders’ equity, short-term and long-term debt) was 41% as of March 31, 2002, and 44% as of December 31, 2001.

**Other Matters**

A collective bargaining agreement covering approximately 2,700 employees at two of the Corporation’s principal manufacturing plants in Hershey, Pennsylvania expired in November 2001. On February 27, 2002, the employees voted not to ratify a new contract offer, despite recommendations by their union negotiating committee and executive board to approve the new contract. On April 16, 2002, the employees voted again not to ratify an amended contract offer following the rejection of that offer by the union negotiating committee. On April 23, 2002, the union provided 72 hours advance notice of a potential work stoppage and on April 26, 2002, initiated a strike.

**Safe Harbor Statement**

The nature of the Corporation’s operations and the environment in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, the Corporation notes the following factors which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated,” and “potential,” among others. Factors which could cause results to differ include, but are not limited to: changes in the confectionery and grocery business environment, including actions of competitors and changes in consumer preferences; changes in governmental laws and regulations, including taxes; market demand for new and existing products; changes in raw material and other costs; the Corporation’s ability to implement improvements to and reduce costs associated with the Corporation’s distribution operations; pension cost factors, such as actuarial assumptions and employee retirement decisions; the outcome of labor negotiations and the duration and resulting impact of potential work stoppages; and the Corporation’s ability to sell certain assets at targeted values.

## Item 3. Quantitative and Qualitative Disclosure About Market Risk

The potential loss in fair value of foreign exchange forward contracts and interest rate swap agreements resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of March 31, 2002. The market risk resulting from a hypothetical adverse market price movement of ten percent associated with the estimated average fair value of net commodity positions increased from $4.7 million as of December 31, 2001, to $4.9 million as of March 31, 2002. Market risk represents 10% of the estimated average fair value of net commodity positions at four dates prior to the end of each period.

## PART II - OTHER INFORMATION

**Items 1 through 5 have been omitted as not applicable.**

**Item 6 - Exhibits and Reports on Form 8-K**

a) Exhibits

The following items are attached and incorporated herein by reference:

Exhibit 10.1 - Amended and Restated Key Employee Incentive Plan.

Exhibit 10.2 - Amended and Restated Supplemental Executive Retirement Plan.

Exhibit 12 - Statement showing computation of ratio of earnings to fixed charges for the quarters ended March 31, 2002 and April 1, 2001.

b) Reports on Form 8-K

No reports on Form 8-K were filed during the three-month period ended March 31, 2002. However, a report on Form 8-K was filed on April 5, 2002, in which the Corporation announced that it had requested proposals from selected audit firms to become Hershey Foods Corporation’s independent auditor.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**HERSHEY FOODS CORPORATION**

**(Registrant)**

Date April 26, 2002 /s/ Frank Cerminara

Frank Cerminara
Senior Vice President,
Chief Financial Officer

Date April 26, 2002 /s/ David W. Tacka

David W. Tacka
Vice President,
Corporate Controller
and Chief Accounting Officer

**EXHIBIT 10.1**

# HERSHEY FOODS CORPORATION
# KEY EMPLOYEE INCENTIVE PLAN

(Amended and Restated by the Board February 13, 2002)

## 1. ESTABLISHMENT AND PURPOSE

Hershey Foods Corporation (the "Corporation") hereby establishes the Key Employee Incentive Plan (the "Plan"). The purpose of the Plan is to provide to selected key employees of the Corporation and its subsidiaries (as defined below), upon whose efforts the Corporation is dependent for the successful conduct of its business, further incentive to continue and increase their efforts as employees and to remain in the employ of the Corporation and its subsidiaries.

The Plan continues the Annual Incentive Program ("AIP"), with certain modifications, as in effect under the Corporation's Management Incentive Plan ("MIP") established in 1975 and as amended thereafter, pursuant to which participants are entitled to receive cash awards based on achievement of performance goals during annual performance cycles. The Plan also continues the Long-Term Incentive Program ("LTIP") portion of the MIP with certain modifications. In addition to performance stock units ("Performance Stock Units"), the LTIP portion also includes nonqualified stock options for the purchase of Common Stock ("Options"); stock appreciation rights ("SARs"); and restricted stock units ("Restricted Stock Units").

As used herein, (i) the term "Subsidiary Corporation" shall mean any present or future corporation which is or would be a "subsidiary corporation" of the Corporation as defined in Section 424 of the Internal Revenue Code of 1986 (the "Code"), and (ii) the term "Corporation" defined above shall refer collectively to Hershey Foods Corporation and its Subsidiary Corporations unless the context indicates otherwise.

## 2. STOCK SUBJECT TO THE PLAN

The aggregate number of shares of the Corporation's common stock, $1.00 par value per share (the "Common Stock") that may be issued under the Plan pursuant to awards granted wholly or partly in Common Stock (including rights or options which may be exercised for or settled in Common Stock) is 19,000,000 (inclusive of shares that are the subject of awards outstanding as of February 13, 2002 and shares issued pursuant to awards under this Plan prior to such date). The shares of Common Stock issued under this Plan may be either authorized but unissued shares, treasury shares held by the Corporation or any direct or indirect subsidiary thereof, or shares acquired by the Corporation through open market purchases or otherwise. The number of shares of Common Stock that are the subject of any awards outstanding on or after February 13, 2002 that are forfeited or terminated, surrendered, expire unexercised, are settled in cash in lieu of Common Stock or are exercised or settled in a manner such that some or all of the shares covered by the award are not issued or are exchanged for awards that do not involve Common Stock, shall again immediately become available for issuance as awards hereunder. The Committee may from time to time adopt and observe such procedures concerning the counting of shares against the Plan maximum as it may deem appropriate.

## 3. ADMINISTRATION

The Plan shall be administered by the Compensation and Executive Organization Committee (the "Committee"), or any successor committee, appointed by and consisting solely of members of the Board of Directors (the "Board") of the Corporation, each of whom qualifies as both a "nonemployee director" within the meaning of Rule 16b-3 or its successor under the Securities Exchange Act of 1934 (the "Exchange Act") and an "outside director" within the meaning of Section 162(m) of the Code. Committee members shall not be eligible to participate in the Plan. The Board may from time to time remove and appoint members of the Committee in substitution for, or in addition to, members previously appointed and may fill vacancies, however caused, in the Committee. The Committee may adopt such rules and regulations as it deems useful in governing its affairs. To the extent provided by resolution of the Board, the Committee may authorize the Chief Executive Officer of the Corporation and other senior officers of the Corporation to designate officers and employees to be recipients of awards, to determine the terms, conditions, form and amount of any such awards, and to take such other actions which the Committee is authorized to take under this Plan, provided that the Committee may not delegate to any person the authority to grant awards to, or take other action with respect to, participants who at the time of such awards or action are subject to
Section 16 of the Exchange Act or are "covered employees" as defined in

Section 162(m) of the Code. Any action of the Committee with respect to the administration of the Plan shall be taken by majority vote at a Committee meeting or written consent of all Committee members.

Subject to the terms and conditions of the Plan, the Committee shall have authority: (i) to construe and interpret Plan provisions; (ii) to define the terms used in the Plan; (iii) to prescribe, amend and rescind rules and regulations relating to the Plan; (iv) to select particular employees to participate in the Plan, (v) to determine the terms, conditions, form and amount of grants, distributions or payments made to each participant, including conditions upon and provisions for vesting, exercise and acceleration of any grants, distributions or payments; (vi) upon the request of a participant in the Plan, to approve and determine the duration of leaves of absence which may be granted to the participant without constituting a termination of his or her employment for purposes of the Plan; and (vii) to make all other determinations necessary or advisable for the administration and operation of the Plan. The Committee shall have the right to impose varying terms and conditions with respect to each grant or award. All determinations and interpretations made by the Committee shall be final, binding and conclusive on all participants and on their legal representatives and beneficiaries.

4. FAIR MARKET VALUE

As used in the Plan (unless a different method of calculation is required by applicable law, and except as otherwise specifically provided in any Plan provision), "Fair Market Value" on or as of any date shall mean (i) the closing price of the Common Stock as reported in the New York Stock Exchange Composite Transactions Report (or any other consolidated transactions reporting system which subsequently may replace such Composite Transactions Report) for the New York Stock Exchange trading day immediately preceding such date, or if there are no sales on such date, on the next preceding day on which there were sales, or (ii) in the event that the Common Stock is no longer listed for trading on the New York Stock Exchange, an amount determined in accordance with standards adopted by the Committee.

5. ELIGIBILITY AND PARTICIPATION

Key employees of the Corporation or of any of its Subsidiary Corporations, including officers and directors who are regular employees but not members of the Committee, who in the opinion of the Committee are in a position to contribute significantly to the success of the Corporation or any Subsidiary Corporation, division or operating unit thereof, shall be eligible for selection to participate in the Plan. In making this selection and in determining the form and amount of grants, distributions and payments under the Plan, the Committee shall take into account the duties of the respective employees, their present and potential contributions to the success of the Corporation or any Subsidiary Corporation, division or operating unit thereof, and such other factors as the Committee may deem relevant in connection with accomplishing the purposes of the Plan. An employee who has been selected to participate may, if he or she is otherwise eligible, receive more than one grant from time to time, and may be granted any combination of contingent target grants under the AIP or under the LTIP components of the Plan, as the Committee shall determine.

6. ANNUAL INCENTIVE PROGRAM

The Committee may from time to time, subject to the provisions of the Plan and such other terms and conditions as the Committee may determine, establish contingent target grants for those eligible employees it selects to participate in the AIP. Each such contingent grant may be, but need not be, evidenced by a written instrument, and shall be determined in relation to the participant's level of responsibility in the Corporation and the competitive compensation practices of other major businesses, and such other factors as are deemed appropriate by the Committee.

(a) Awards actually earned by and paid to AIP participants ("AIP Awards") will be based primarily upon achievement of Performance Goals (as defined in Section 9 below) over a one-year performance cycle as approved by the Committee.

(b) The Committee, within the limits of the Plan, shall have full authority and discretion to determine the time or times of establishing contingent target grants; to select from among those eligible the employees to receive awards; to review and certify the achievement of Performance Goals; to designate levels of awards to be earned in relation to levels of achievement of Performance Goals; to adopt such financial and nonfinancial performance or other criteria for the payment of awards as it may determine from time to time; to make awards; and to establish such other measures as may be necessary to achieve the objectives of the Plan. The financial or non-financial Performance Goals established by the Committee may be based upon one or more Performance Factors (as defined in Section 9 below).

(c) The maximum amount any participant can receive as an AIP Award for any calendar year shall not exceed $3,000,000.

(d) AIP Awards as earned under the terms of the Plan shall be paid in cash and may exceed or be less than the contingent target grants, subject nevertheless to the maximum award limit set forth in subparagraph (c) above. Payment shall normally be made as soon as possible following the close of the year, but payment of all or any portion may be deferred by participants with the approval of the Committee.

7. LONG-TERM INCENTIVE PROGRAM

The LTIP consists of the following four components:

I. Performance Stock Units

The Committee may, subject to the provisions of the Plan and such other terms and conditions as the Committee may determine, grant Performance Stock Units to reflect the value of contingent target grants established for each eligible employee selected for participation. Each grant of Performance Stock Units may be, but need not be, evidenced by a written instrument. Such contingent target grants shall be determined in relation to the employee's level of responsibility in the Corporation or any Subsidiary Corporation, division or operating unit thereof, and the competitive compensation practices of other major businesses.

(a) Awards actually earned by and paid to holders of Performance Stock Units ("PSU Awards") will be based upon achievement of Performance Goals over performance cycles as approved by the Committee. Such performance cycles each shall cover such period of time, not exceeding five years, as the Committee from time to time shall determine.

(b) The Committee, within the limits of the Plan, shall have full authority and discretion to determine the time or times of establishing contingent target grants and the granting of Performance Stock Units; to select from among those eligible the employees to receive PSU Awards; to review and certify the achievement of Performance Goals; to designate levels of awards to be earned in relation to levels of achievement of Performance Goals; to adopt such financial and nonfinancial performance or other criteria for the payment of PSU Awards as it may determine from time to time; to make awards; and to establish such other measures as may be necessary to the objectives of the Plan. The Performance Goals established by the Committee may be based on one or more of the Performance Factors.

(c) Payments of PSU Awards shall be made in shares of Common Stock or partly in cash as the Committee in its sole discretion shall determine and shall be charged against the shares available under the LTIP portion of the Plan as provided in Paragraph 2; provided, however, that no fractional shares shall be issued and any such fraction will be eliminated by rounding downward to the nearest whole share.

(d) PSU Awards as earned under the terms of the Plan may exceed or be less than the contingent target grants. Payment shall normally be made as soon as possible following the close of the year, but payment of all or any portion may be deferred by participants with the approval of the Committee.

(e) The maximum number of PSUs a participant can receive as a PSU Award in any calendar year is 75,000.

**II. Stock Options**

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant nonqualified Options to purchase shares of Common Stock of the Corporation to employees eligible to participate in the Plan. Each grant of an Option shall be on such terms and conditions and be in such form as the Committee may from time to time approve, subject to the following:

(a) The exercise price per share with respect to each Option shall be determined by the Committee in its sole discretion, but shall not be less than 100% of the Fair Market Value of the Common Stock as of the date of the grant of the Option.

(b) Options granted under the Plan shall be exercisable, in such installments and for such periods, as shall be provided by the Committee at the time of granting, but in no event shall any Option granted extend for a period in excess of ten years from the date of grant.

(c) The maximum number of shares of Common Stock covered by Options granted to a participant for any calendar year shall not exceed 500,000.

(d) Among other conditions that may be imposed by the Committee, if deemed appropriate, are those relating to (i) the period or periods and the conditions of exercisability of any Option; (ii) the minimum periods during which grantees of Options must be employed, or must hold Options before they may be exercised; (iii) the minimum periods during which shares acquired upon exercise must be held before sale or transfer shall be permitted; (iv) conditions under which such Options or shares may be subject to forfeiture; and (v) the frequency of exercise or the minimum or maximum number of shares that may be acquired at any one time.

(e) Exercise of an Option shall be by written notice stating the election to exercise in the form and manner determined by the Committee.

(f) The purchase price upon exercise of any Option shall be paid in full by making payment (i) in cash; (ii) in whole or in part by the delivery of a certificate or certificates of shares of previously-acquired Common Stock of the Corporation, valued at its then Fair Market Value; or (iii) by a combination of (i) and (ii).

(g) Notwithstanding subparagraph (f) above, any optionee may make payment of the Option price through a simultaneous exercise of his or her Option and sale of the shares thereby acquired pursuant to a brokerage arrangement approved in advance by the Committee to assure its conformity with the terms and conditions of the Plan.

(h) The Committee may require the surrender of outstanding Options as a condition to the grant of new Options.

(i) Notwithstanding any other provision of the Plan or of any Option agreement between the Corporation and an employee, upon the occurrence of a Change in Control, each outstanding Option held by a participant who is an employee of the Corporation or any Subsidiary Corporation or who retired while employed by the Corporation or any Subsidiary Corporation shall become fully vested and exercisable notwithstanding any vesting schedule or installment schedule relating to the exercisability of such Option contained in the applicable Option agreement or otherwise established at the time of grant of the Option.

(j) For purposes of this Plan, a "Change in Control" means:

(1) Individuals who, on June 8, 1999, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to June 8, 1999, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by specific vote or by approval of the proxy statement of the Corporation in which such person is named as nominee for director, without written objection to such nomination) shall be an Incumbent Director; PROVIDED, HOWEVER, that no individual initially elected or nominated as a director of the Corporation as a result of an actual or threatened election contest (as described in Rule 14a-11 under the Exchange Act) ("Election Contest") or other actual or threatened solicitation of proxies or consents by or on behalf of any person (as such term is defined in Section 3(a)(9) of the Exchange Act and as used in Section 13(d)(3) and 14(d)(2) of the Exchange Act) ("Person") other than the Board ("Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; and PROVIDED FURTHER, HOWEVER, that a director who has been approved by the Hershey Trust while it beneficially owns more than 50% of the combined voting power of the then outstanding voting securities of the Corporation entitled to vote generally in the election of directors (the "Outstanding Corporation Voting Power") shall be deemed to be an Incumbent Director; or

(2) The acquisition or holding by any Person of beneficial ownership (within the meaning of Section 13(d) under the Exchange Act and the rules and regulations promulgated thereunder) of shares of the Common Stock and/or the Class B Common Stock of the Corporation representing 25% or more of either (i) the total number of then outstanding shares of both Common Stock and Class B Common Stock of the Corporation (the "Outstanding Corporation Stock") or (ii) the Outstanding Corporation Voting Power; provided that, at the time of such acquisition or holding of beneficial ownership of any such shares, the Hershey Trust does not beneficially own more than 50% of the Outstanding Corporation Voting Power; and provided, further, that any such acquisition or holding of beneficial ownership of shares of either Common Stock or Class B Common Stock of the Corporation by any of the following entities shall not by itself constitute such a Change in Control hereunder: (i) the Hershey Trust; (ii) any trust established by the Corporation or by any Subsidiary Corporation for the benefit of the Corporation and/or its employees or those of a Subsidiary Corporation or by any Subsidiary Corporation for the benefit of the Corporation and/or its employees or those of a Subsidiary Corporation; (iii) any employee benefit plan (or related trust)

sponsored or maintained by the Corporation or any Subsidiary Corporation; (iv) the Corporation or any Subsidiary Corporation or (v) any underwriter temporarily holding securities pursuant to an offering of such securities; or

(3) The approval by the stockholders of the Corporation of any merger, reorganization, recapitalization, consolidation or other form of business combination (a "Business Combination") if, following consummation of such Business Combination, the Hershey Trust does not beneficially own more than 50% of the total voting power of all outstanding voting securities of (x) the surviving entity or entities (the "Surviving Corporation") or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Surviving Corporation; or

(4) The approval by the stockholders of the Corporation of (i) any sale or other disposition of all or substantially all of the assets of the Corporation, other than to a corporation (the "Acquiring Corporation") if, following consummation of such sale or other disposition, the Hershey Trust beneficially owns more than 50% of the total voting power of all outstanding voting securities eligible to elect directors (x) of the Acquiring Corporation or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Acquiring Corporation, or (ii) a liquidation or dissolution of the Company.

For purposes of this Plan, "Hershey Trust" means either or both of
(a) the Hershey Trust Company, a Pennsylvania corporation, as Trustee for the Milton Hershey School, or any successor to the Hershey Trust Company as such trustee, and (b) the Milton Hershey School, a Pennsylvania not-for-profit corporation (k) For purposes of this Plan, a "Potential Change in Control" means:

(1) The Hershey Trust by action of any of the Board of Directors of Hershey Trust Company; the Board of Managers of Milton Hershey School; the Investment Committee of the Hershey Trust; and/or any of the officers of Hershey Trust Company or Milton Hershey School (acting with authority) undertakes consideration of any action the taking of which would lead to a Change in Control as defined herein, including, but not limited to consideration of (i) an offer made to the Hershey Trust to purchase any number of its shares in the Corporation such that if the Hershey Trust accepted such offer and sold such number of shares in the Corporation the Hershey Trust would no longer have more than 50% of the Outstanding Corporation Voting Power, (ii) an offering by the Hershey Trust of any number of its shares in the Corporation for sale such that if such sale were consummated the Hershey Trust would no longer have more than 50% of the Outstanding Corporation Voting Power or (iii) entering into any agreement or understanding with a person or entity that would lead to a Change in Control; or

(2) The Board approves a transaction described in subsection (2),
(3) or (4) of the definition of a Change in Control contained in subparagraph (j) of Paragraph 7II hereof.

(l) In the event that a transaction which would constitute a Change in Control if approved by the stockholders of the Corporation is to be submitted to such stockholders for their approval, each participant who is an employee and who holds an Option granted under the Plan at the time scheduled for the taking of such vote, whether or not then exercisable, shall have the right to receive a notice at least ten (10) business days prior to the date on which such vote is to be taken. Such notice shall set forth the date on which such vote of stockholders is to be taken, a description of the transaction being proposed to stockholders for such approval, a description of the provisions of subparagraph (i) of Paragraph 7II of the Plan and a description of the impact thereof on such participant in the event that such stockholder approval is obtained. Such notice shall also set forth the manner in which and price at which all Options then held by each such participant could be exercised upon the obtaining of such stockholder approval.

**III.Stock Appreciation Rights**

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as the Committee may determine, grant SARs to employees eligible to participate in the Plan. SARs may, but need not be evidenced by an agreement executed by the Corporation and the holder, and shall be subject to such terms and conditions consistent with the Plan as the Committee shall impose from time to time, including the following:

(a) SARs may, but need not, relate to Options granted under the Plan, as the Committee shall determine from time to time. In no event shall any SARs granted extend for a period in excess of ten years from the date of grant.

(b) A holder shall exercise his or her SARs by giving written notice of such exercise in the form and manner determined by the Committee, and the date upon which such written notice is received by the Corporation shall be the exercise date for the SARs.

(c) A holder of SARs shall be entitled to receive upon exercise the excess of the Fair Market Value of a share of Common Stock at the time of exercise over the Fair Market Value of a share at the time the SARs were granted, multiplied by the number of shares with respect to which the SARs relate.

(d) In the sole discretion of the Committee, the amount payable to the holder upon exercise of SARs may be paid either in Common Stock or in cash or in a combination thereof. To the extent paid in Common Stock, the value of the Common Stock that shall be distributed shall be the Fair Market Value of a share of Common Stock upon exercise of the SARs as provided in Paragraph 2; provided, however, that no fractional shares shall be issued and any such fraction will be eliminated by rounding downward to the nearest whole share.

(e) In the sole discretion of the Committee, SARs related to specific Options may be exercisable only upon surrender of all or a portion of the related Option, or may be exercisable, in whole or in part, only at such times and to the extent that the related Option is exercisable, and the number of shares purchasable pursuant to the related Option may be reduced to the extent of the number of shares with respect to which the SARs are exercised.

(f) In lieu of receiving payment at the time of exercise of SARs, payment of all or any portion may be deferred by the participant with the approval of the Committee.

(g) The maximum number of SARs granted to a participant during any calendar year shall not exceed 500,000.

**IV. Restricted Stock Units**

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Restricted Stock Units to employees eligible to participate in the Plan. Each grant of Restricted Stock Units may be, but need not be evidenced by a written instrument. The grant of Restricted Stock Units shall state the number of Restricted Stock Units covered by the grant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the following:

(a) Each Restricted Stock Unit shall be equivalent in value to a share of Common Stock.

(b) Vesting of each grant of Restricted Stock Units shall require the holder to remain in the employment of the Corporation or a Subsidiary Corporation for a prescribed period (a "Restriction Period"). The Committee shall determine the Restriction Period or Periods which shall apply to the shares of Common Stock covered by each grant of Restricted Stock Units. Except as otherwise determined by the Committee and provided in the written instrument granting the Restricted Stock Units, and except as otherwise provided in Paragraph 8, all Restricted Stock Units granted to a participant under the Plan shall terminate upon termination of the participant's employment with the Corporation or any Subsidiary Corporation before the end of the Restriction Period or Periods applicable to such Restricted Stock Units, and in such event the holder shall not be entitled to receive any payment with respect to those Restricted Stock Units. The Committee may also, in its sole discretion, establish other terms and conditions for the vesting of Restricted Stock Units, including conditioning vesting on the achievement of one or more of the Performance Factors. Notwithstanding any other provisions of the Plan or of any written instrument granting Restricted Stock Units, upon the occurrence of a Change in Control as defined in subparagraph (j) of Paragraph 7II hereof, all restrictions on Restricted Stock Units held by a participant who is an employee of the Corporation or any Subsidiary Corporation shall lapse.

(c) Upon expiration of the Restriction Period or Periods applicable to each grant of Restricted Stock Units, the holder shall, without payment on his part, be entitled to receive payment in an amount equal to the aggregate Fair Market Value of the shares of Common Stock covered by such grant upon such expiration. Such payment may be made in cash, in shares of Common Stock equal to the number of Restricted Stock Units with respect to which such payment is made, or in any combination thereof, as the Committee in its sole discretion shall determine. Further upon such expiration, the holder shall be entitled to receive a cash payment in an amount equal to each cash dividend the Corporation would have paid to such holder during the term of those Restricted Stock Units as if the holder had been the owner of record of the shares of Common Stock covered by such Restricted Stock Units on the record date for the payment of such dividend.

(d) In lieu of receiving payment at the time of expiration of the Restriction Period or Periods, payment of all or any portion may be deferred by the participant with the approval of the Committee.

(e) The maximum number of shares of Common Stock as to which Restricted Stock Units may be granted to a participant for any calendar year shall not exceed 75,000.

8. TERMINATION OF EMPLOYMENT

Upon termination of employment with the Corporation of any participant, such participant's rights with respect to any contingent target grants under the AIP, or any Performance Stock Units, Options, SARs or Restricted Stock Units granted under the LTIP, shall be as follows:

(a) In the event that the participant is terminated or discharged by the Corporation for any reason, except as and to the extent provided otherwise by the Committee in writing, the participant's rights and interests under the Plan shall immediately terminate upon notice of termination of employment. Upon the occurrence of a Potential Change in Control (as defined in subparagraph (k) of Paragraph 7II hereof) and for a period of one year thereafter, and upon the occurrence of a Change in Control (as defined in subparagraph (j) of Paragraph 7II hereof), the following special provisions and notice requirements shall be applicable in the event of the termination of the employment of any participant holding an Option under the Plan: (i) in no event may a notice of termination of employment be issued to such a participant unless at least ten (10) business days prior to the effective date of such termination the participant is provided with a written notice of intent to terminate the participant's employment which sets forth in reasonable detail the reason for such intent to terminate, the date on which such termination is to be effective, and a description of the participant's rights under this Plan and under the agreements granting such Option or Options, including the fact that no such Option may be exercised after such termination has become effective and the manner, extent and price at which all Options then held by such participant may be exercised; and (ii) such notice of intent to terminate a participant's employment shall not be considered a "notice of termination of employment" for purposes of the first sentence of this Paragraph 8 (a). This Paragraph 8 (a) is intended only to provide for a requirement of notice to terminate upon the occurrence of the events set forth herein and shall not be construed to create an obligation of continued employment or a contract of employment in any manner or to otherwise affect or limit the Corporation's ability to terminate the employment of any participant holding an Option under the Plan.

(b) If a participant terminates employment with the Corporation as the result, in the sole judgment of the Committee, of his or her becoming totally disabled (in which event termination will be deemed to occur on the date the Committee makes such determination), or if a participant should die or (except as to Restricted Stock Units) retire while employed by the Corporation or any of its Subsidiary Corporations, then the participant or, as the case may be, the person or persons to whom the participant's interest under the Plan shall pass by will or by the laws of descent and distribution (the "Estate"), shall have the following rights:

(i) the grantee of a contingent AIP grant or the Estate shall be entitled to receive payment of an AIP award as, and to the extent, determined by the Committee;

(ii) if the holder of Performance Stock Units shall have been employed for at least two-thirds of the related performance cycle prior to the date of termination or death, then, except as otherwise provided in the written instrument (if any) evidencing the

Performance Stock Units, and subject to any further adjustments the Committee may make in its absolute discretion, the participant or the Estate shall be entitled to receive payment of a PSU Award upon the expiration of the related performance cycle, provided that such award shall be adjusted by multiplying the amount thereof by a fraction, the numerator of which shall be the number of full and partial calendar months between the date of the beginning of each such performance cycle and the date of termination or death, and the denominator of which shall be the number of full and partial calendar months from the date of the beginning of the performance cycle to the end of the said performance cycle;

(iii)except as otherwise provided in the terms and conditions of the stock option or SAR grant, the holder or the Estate shall be entitled to exercise (provided any vesting requirement has been satisfied as of the date of exercise) any Option or SAR for a period of five years (three years in the case of options or SARs granted prior to 1997) from such date of death, total disability or retirement, or for such longer period as the Committee may determine in the case of financial hardship or other unusual circumstances (subject to the maximum exercise period for Options and SARs specified in Paragraph 7II(b) and 7III(a) hereof, respectively);
(iv) except as otherwise provided in the written instrument evidencing the Restricted Stock Units, upon death or termination due to total disability the holder or the Estate shall be entitled to receive payment in respect of the Restricted Stock Units, provided that such Units shall be adjusted by multiplying the amount thereof by a fraction, the numerator of which shall be the number of full and partial calendar months between the date of grant of such Units and the date of death or termination, and the denominator of which shall be the number of full and partial calendar months from the date of the grant to the end of the Restriction Period. Upon retirement, the participant's rights with respect to Restricted Stock Units shall immediately terminate.

(c) In the event of resignation by the participant, the participant's rights and interests under the Plan shall immediately terminate upon such resignation; provided, however, that the Committee shall have the absolute discretion to review the reasons and circumstances of the resignation and to determine whether, alternatively, and to what extent, if any, the participant may continue to hold any rights or interests under the Plan.

(d) A transfer of a participant's employment without an intervening period from the Corporation to a Subsidiary Corporation or vice versa, or from one Subsidiary Corporation to another, shall not be deemed a termination of employment.

(e) The Committee shall be authorized to make all determinations and calculations required by this Paragraph 8, including any determinations necessary to establish the reason for terminations of employment for purposes of the Plan, which determinations and calculations shall be conclusive and binding on any affected participants and Estates.

9. PERFORMANCE FACTORS; ADDITIONAL REQUIREMENTS

Without limiting the type or number of awards that may be made under this Plan, an award may be in the form of a performance-based award intended to comply as "performance-based" compensation under Section 162(m) of the Code (such award a "Performance Award"). A Performance Award shall be paid, vested or otherwise deliverable solely on account of the attainment of one or more pre-established, objective performance goals ("Performance Goals") established by the Committee prior to the earlier to occur of (x) 90 days after the commencement of the period of service to which the Performance Goal relates and (y) the elapse of 25% of the period of service (as established in good faith at the time the Performance Goal is established), and in any event while the outcome is substantially uncertain. A Performance Goal is objective if a third party having knowledge of the relevant facts could determine whether the goal is met. A Performance Goal may be based on one or more of the following business criteria: earnings per share, return on net assets, market share, control of costs, net sales, cash flow, return on invested capital, economic value-added measures, sales growth, earnings growth, stock price, return on equity, financial ratings, regulatory compliance, achievement of balance sheet or income statement objectives, or other financial, accounting or quantitative objectives established by the Committee (collectively, the "Performance Factors"). Performance Factors may be particular to a participant or the division, line of business or other unit in which the participant works, or the Corporation generally, or may be absolute in their terms or measured against or in relationship to the performance of a peer group or other external or internal measure. A Performance Goal may, but need not be, based upon a change or an increase or positive result under a particular Performance Factor and could include, for example, maintaining the status quo, limiting economic losses, or a relative comparison of performance to the performance of a peer group or other external or internal measure (measured, in each case, by reference to specific Performance Factors). A Performance Goal may include or exclude items to measure specific objectives, including, without limitation, extraordinary or other non-recurring items, acquisitions and divestitures, internal restructuring and reorganizations, accounting charges and effects of accounting changes. In interpreting Plan provisions applicable to Performance Goals and Performance Awards applicable to awards to employees who are "covered employees" under Section 162(m) of the Code, it is the intent of the Plan to conform with the standards of Section 162(m) of the Code and Treasury Regulations Section 1.162-27(e)(2)(i), and the Committee in establishing such goals and interpreting the Plan shall be guided by such provisions. Prior to the payment of any compensation based on the achievement of Performance Goals to any such "covered employee", the Committee must certify in writing that applicable Performance Goals and any of the material terms thereof were, in fact, satisfied. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Performance Awards made pursuant to this Plan shall be determined by the Committee.

No Performance Stock Units, Options, SARs or Restricted Stock Units (hereinafter collectively an "Interest") granted pursuant to the Plan shall be exercisable or realized in whole or in part, and the Corporation shall not be obligated to sell, distribute or issue any shares subject to any such Interest, if such exercise and sale would, in the opinion of counsel for the Corporation, violate the Securities Act of 1933, as amended (or other Federal or state statutes having similar requirements). Each Interest shall be subject to the further requirement that, if at any time the Board of Directors shall determine in its discretion that the listing or qualification of the shares relating or subject to such Interest under any securities exchange requirements or under any applicable law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Interest or the distribution or issue of shares thereunder, such Interest may not be exercised in whole or in part unless such listing, qualification, consent or approval shall have been effected or obtained free of any condition not acceptable to the Board of Directors.

Interests may be subject to restrictions as to resale or other disposition and to such other provisions as may be appropriate to comply with Federal and state securities laws and stock exchange requirements, and the exercise of any Interest or entitlement to payment thereunder may be contingent upon receipt from the holder (or any other person permitted by this Plan to exercise any Interest or receive any distribution hereunder) of a representation that at the time of such exercise it is his or her then present intention to acquire the shares being distributed for investment and not for resale.

10. NONTRANSFERABILITY

Unless otherwise approved by the Committee, contingent AIP grants, Performance Stock Units, Options, SARs and Restricted Stock Units granted under the Plan to an employee shall be nonassignable and shall not be transferable by him or her otherwise than by will or the laws of descent and distribution, and shall be exercisable, during the employee's lifetime, only by the employee or the employee's guardian or legal representative.

11. DISCLAIMER OF RIGHTS

No provision in the Plan or any contingent target AIP grants, Performance Stock Units, Options, SARs or Restricted Stock Units granted pursuant to the Plan shall be construed to confer upon the participant any right to be employed by the Corporation or by any Subsidiary Corporation, or to interfere in any way with the right and authority of the Corporation or any Subsidiary Corporation either to increase or decrease the compensation of the participant at any time, or to terminate any relationship of employment between the participant and the Corporation or any of its Subsidiary Corporations.

Participants under the Plan shall have none of the rights of a stockholder of the Corporation with respect to shares subject to Performance Stock Units, Options, SARs or Restricted Stock Units unless and until such shares have been issued to him or her.

12. STOCK ADJUSTMENTS

In the event that the shares of Common Stock, as presently constituted, shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Corporation or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, stock split, combination of shares or otherwise), or if the number of such shares of Common Stock shall be increased through the payment of a stock dividend, or a dividend on the shares of Common Stock of rights or warrants to purchase securities of the Corporation shall be made, then there shall be substituted for or added to each share available under and subject to the Plan as provided in Paragraph 2 hereof, and to the limitations set forth in Paragraphs 7II (c); 7III (g) and 7IV (e), and each share theretofore appropriated or thereafter subject or which may become subject to Performance Stock Units, Options, SARs or Restricted Stock Units under the Plan, the number and kind of shares of stock or other securities into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged or to which each such share shall be entitled, as the case may be. Outstanding Options and SARs also shall be appropriately amended as to price and other terms as may be necessary to reflect the foregoing events. In the event there shall be any other change in the number or kind of the outstanding shares of Common Stock, or of any stock or other securities into which the Common Stock shall have been changed or for which it shall have been exchanged, then if the Board of Directors shall, in its sole discretion, determine that such change equitably requires an adjustment in the shares available under and subject to the Plan, or in any Performance Stock Units, Options, SARs or Restricted Stock Units theretofore granted or which may be granted under the Plan, such adjustments shall be made in accordance with such determination.

No fractional shares of Common Stock or units of other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share or unit.

13. TAXES

The Corporation shall be entitled to withhold the amount of any tax attributable to any amounts payable or shares of Common Stock deliverable under the Plan. The person entitled to any such delivery, whether due to the settlement of PSUs, the exercise of an Option or SAR, or the vesting of Restricted Stock Units, or any other taxable event may, by notice to the Corporation, elect to have any such required withholding satisfied by a reduction of the number of shares otherwise so deliverable (a "Stock Withholding Election"), or by delivery of shares of Stock already owned by the Participant, with the amount of shares subject to such reduction or delivery to be calculated based on the Fair Market Value on the date of such taxable event.

14. EFFECTIVE DATE AND TERMINATION OF PLAN

The Plan as amended and restated herein shall become effective upon adoption by the Board of Directors of the Corporation.

The Board of Directors at any time may terminate the Plan, but such termination shall not alter or impair any of the rights or obligations under any contingent target AIP grants, Performance Stock Units, Options, SARs or Restricted Stock Units theretofore granted under the Plan unless the affected participant shall so consent.

15. APPLICATION OF FUNDS

The proceeds received by the Corporation from the sale of capital stock pursuant to Options will be used for general corporate purposes.

16. AMENDMENT

The Board of Directors by majority vote, at any time and from time to time, may amend the Plan in such respects as it shall deem advisable, to conform to any change in any applicable law or in any other respect; provided that any such amendment shall not adversely alter or impair any of the rights or obligations under any contingent target AIP grants, Performance Stock Units, Options, SARs or Restricted Stock Units theretofore granted under the Plan unless the affected participant shall so consent. Notwithstanding the foregoing, the Plan may not be terminated or amended in a manner adverse to the interests of any participant (without the consent of the participant) either: (a) after a Potential Change in Control occurs and for one (1) year following the cessation of a Potential Change in Control, or (b) for a two-year period beginning as of the date of a Change in Control (the "Coverage Period"). Upon the expiration of the Coverage Period, subparagraph (l) of Paragraph 7II of the Plan and Paragraph 8 (a) of the Plan may not be amended in any manner that would adversely affect any participant without the consent of the participant.

*/s/ Marcella K. Arline*
*--------------------------------------*
*Marcella K. Arline*
*Vice President, Human Resources*

**EXHIBIT 10.2**

# HERSHEY FOODS CORPORATION
# AMENDED AND RESTATED (2002)
# SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

1. PURPOSE OF PLAN. The purpose of the Amended and Restated (2002) Supplemental Executive Retirement Plan, effective as of January 1, 2002 (hereinafter called the "Plan") is to obtain for Hershey Foods Corporation (hereinafter called the "Corporation") all of the benefits which flow from maintaining a strong management team by providing to executive and upper level management employees the means to continue their attained standard of living during retirement and by offering benefits that will assist in attracting executive and upper level management employees of outstanding ability. The Plan constitutes an amendment, restatement and continuation of the prior plan which was most recently restated as of June 9, 1999.

To the extent provided by law, the benefits provided hereunder with respect to any Participant who retired or whose employment with the Corporation terminated prior to January 1, 2002, will, except as otherwise specifically provided for herein, be governed in all respects by the terms of the plan document then in effect on the date of the Participant's retirement or other termination of employment.

2. DEFINITIONS. The following words and phrases as used in the Plan shall have the following meanings, unless a different meaning is plainly required by the context:

a. "Cause" means the willful engaging by an employee of the Corporation in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Corporation.

For purposes of this definition, no act or failure to act, on the part of an employee of the Corporation, shall be considered "willful" unless it is done, or omitted to be done, by the employee in bad faith and without reasonable belief that the employee's action or omission was in the best interest of the Corporation. Any act or failure to act, based upon prior approval given by the Board or upon the instruction or with the approval of the Chief Executive Officer or the employee's superior or based upon the advice of counsel for the Corporation shall be conclusively presumed to be done, or omitted to be done, by the employee in good faith and in the best interest of the Corporation.

b. "Committee" means the Compensation and Executive Organization Committee of the Board of Directors of the Corporation (the "Board") or other such person, persons or committees as the Board may prescribe from time to time.

Effective as of October 2, 2001, Committee shall also mean the Employee Benefits Committee of the Corporation, to which the Board has delegated certain duties with respect to the administration of the Corporation's employee benefit plans, or any successor committee as designated by the Board.

c. "Deferred Retirement Date" means the first day of the month following an employee's termination of employment with the Corporation provided such termination occurs after his Normal Retirement Date.

d. "Disability" or "Disabled", for purposes of this Plan, shall have the same meaning as provided in Section 1.16 of the Retirement Plan, as such section may be amended from time to time.

e. "Early Retirement Date" means the first day of any month following an employee's termination of employment with the Corporation which is coincident with or following his fifty-fifth (55th) birthday and prior to his Normal Retirement Date.

Effective as of January 1, 2002, Early Retirement Date means the first day of any month following a Participant's termination of employment with the Corporation which is coincident with or following the earlier of (i) the date the Participant attains age fifty-five (55) or (ii) the date the Committee (in its sole discretion) deems the Participant to have attained age fifty-five (55) if such Participant terminated his or her employment with the Corporation under an early retirement plan, program or arrangement and prior to the Participant's Normal Retirement Date.

f. "Final Average Compensation" means the sum of (1) the highest annual average of a Vested Participant's basic salary paid or accrued over any thirty-six (36) consecutive month period during his last ten (10) years of employment with the Corporation and (2) the highest annual average of his annual awards under the Annual Incentive Program (hereinafter called the "AIP") of the Corporation's Key Employee Incentive Plan ("KEIP") paid or accrued over any five (5) consecutive calendar years during his last ten (10) years of employment with the Corporation. If a Vested Participant dies, retires, or suffers a Disability or if a Participant suffers a Disability during a calendar year and only a partial AIP award is made for that year, for purposes of the Plan, his AIP award for such year will be considered to equal the award actually made divided by the fraction of such year that he was employed by the Corporation prior to his death, retirement or Disability. If a Vested Participant otherwise terminates employment with the Corporation during a calendar year, his AIP award for that year for purposes of the Plan will be considered to be zero (0), regardless of whether any AIP award is actually made for that year.

g. "GATT Interest Rate" means, for purposes of this Plan, for any specific month, the "applicable interest rate" as specified by the Commissioner of the Internal Revenue Service in Section 417(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code") (as such applicable interest rate is modified from time to time in revenue rulings, notices or other guidance, published in the Internal Revenue Service Bulletin), decreased by the percentage applicable to such month as set forth on Schedule I attached hereto.

h. "Lump Sum Interest Rate" means, as of any specific date, the sum of one-twelfth (1/12th) of each GATT Interest Rate for the twelve consecutive months beginning with the thirteenth (13th) month preceding the month during which such date occurs.

i. "Normal Retirement Date" means, for the purposes of this Plan, the first day of the month nearest an employee's sixty-fifth (65th) birthday, except that if his birthday is equally near the first of two calendar months, the first day of the month prior to his sixty-fifth (65th) birthday shall be his Normal Retirement Date.

j. "PBGC Interest Rate" means, for any specific month, the interest rate used by the Pension Benefit Guaranty Corporation for such month for purposes of valuing immediate annuities for terminating single employer plans with insufficient assets to pay guaranteed benefits.

k. "Participant" means, as of any specific date, an employee of the Corporation who, as of such date, is a participant in the performance share unit portion of the KEIP or who, as of such date, is not then but had been a participant in the performance share unit portion of the KEIP for at least five (5) of his last ten (10) years of employment with the Corporation.

l. "Retirement Plan" means the Corporation's Retirement Plan, amended and restated effective January 1, 1997, as in effect from time to time and any successor plan thereto.

m. "Vested Participant" means, as of any specific date, a Participant who, as of such date, satisfies each eligibility requirement set forth in the first sentence of Section 3 of the Plan or any prior version of the Plan.

n. "Years of Service", for purposes of this Plan, shall have the same meaning as provided in Section 1.59 of the Retirement Plan, as such section may be amended from time to time.

3. ELIGIBILITY. An employee of the Corporation will be eligible to receive a benefit pursuant to Section 4 of the Plan if, at the time of his termination of employment with the Corporation, such employee (i) is at least fifty-five (55) years of age, (ii) has ten (10) Years of Service, and (iii) has participated in the performance share unit portion of the KEIP for at least five
(5) of his last ten (10) years of employment with the Corporation. No employee of the Corporation, regardless of whether he satisfies all the eligibility requirements to be a Vested Participant, shall be entitled to receive any benefits under the Plan if his employment with the Corporation is terminated for Cause. Notwithstanding the above, an employee whose employment is terminated with the Corporation prior to his Normal Retirement Date for reason of Disability will be treated as provided for in Section 4.c.

Notwithstanding anything in this Section to the contrary, with respect to a person who elected to participate in the Hershey Foods Corporation 2001 Early Retirement Plan (the "ERP") and who terminates his or her employment with the Corporation under the terms and conditions of the ERP, such person's age at the time of his or her termination from employment shall be the greater of (y) such person's actual age or (z) age fifty-five (55) for purposes of determining such person's eligibility to receive a benefit under this Plan as set forth in subsection (i) of this Section.

4. RETIREMENT BENEFITS.

a. Normal Retirement Benefit. An employee who qualifies as a Vested Participant on the date of his termination of employment with the Corporation, and who retires (or whose employment is otherwise terminated, other than for Cause) on or after his Normal Retirement Date shall be entitled under the Plan to receive a normal retirement benefit which shall be an annual benefit, payable in monthly installments, equal to:

(1) the product of three and two-thirds percent (3 2/3%) of his Final Average Compensation and his Years of Service not in excess of fifteen (15) Years of Service;

reduced by:

(2) one hundred percent (100%) of the Vested Participant's retirement benefit under the Retirement Plan and any other tax-qualified defined benefit pension plan maintained by the Corporation or any affiliate thereof or any defined benefit pension plan maintained by any other entity, payable as a life annuity commencing at his Normal Retirement Date or his Deferred Retirement Date if he retires after his Normal Retirement Date, regardless of whether such benefit payment is in that form or begins at that time; and

(3) one hundred percent (100%) of the primary social security benefit to which the Vested Participant would be entitled on his Normal Retirement Date or his Deferred Retirement Date if he retires after his Normal Retirement Date regardless of whether he receives any portion of such primary Social Security benefit on such date.

Payment of such benefit shall commence on his Normal Retirement Date if he retires (or otherwise has his employment terminated, other than for Cause) on such date and on his Deferred Retirement Date if he retires (or otherwise has his employment terminated, other than for Cause) after his Normal Retirement Date.

b. Early Retirement Benefit. An employee who qualifies as a Vested Participant on the date of his termination of employment with the Corporation, and who retires (or whose employment is otherwise terminated, other than for Cause) on or after his Early Retirement Date and prior to his Normal Retirement Date shall be entitled under the Plan to receive an early retirement benefit which shall be an annual benefit payable in monthly installments, equal to the product of:

(1) the benefit determined in accordance with Section 4.a. above; and

(2) one (1) minus the product of (a) five-twelfths of a percent (5/12%), and (b) the number of complete calendar months by which the Vested Participant's date of termination of employment precedes his sixtieth (60th) birthday. Notwithstanding anything in the preceding sentence to the contrary, with respect to a Participant in this Plan who is eligible for enhanced benefits under the ERP and terminates his or her employment under the terms and conditions of the ERP, the number of complete calendar months described in subsection 4b.(2)(b) shall not exceed sixty (60).

Payment of such benefit shall commence on the first day of the month coincident with the Vested Participant's retirement or other termination of employment, other than for Cause.

c. Disability Retirement Benefit. If an employee who is an active participant in the performance share unit portion of the KEIP suffers a Disability prior to his Normal Retirement Date and while employed by the Corporation, the period of his Disability will be recognized as Years of Service and as years of participation in the performance share unit portion of the KEIP under the Plan. If such Disability continues to his Normal Retirement Date, for purposes of the Plan, he will retire on that date and will be entitled to a normal retirement benefit calculated in accordance with Section 4.a. commencing on that date. In calculating the benefit under Section 4.a., the Participant's Final Average Compensation shall be equal to his annual base compensation immediately prior to his Disability plus the average of his AIP earned during the three (3) years immediately prior to the commencement of his Disability.

d. Pre-Retirement Death Benefit. If a Participant dies before his employment by the Corporation terminates and qualifies as a Vested Participant on his date of death, his designated beneficiary(ies), or his estate if he has not designated any beneficiary or beneficiaries in accordance with procedures established by the Committee, shall receive within ten (10) days of the Vested Participant's death a death benefit equal to the lump sum present value of one hundred percent (100%) of the retirement benefit that would have been payable to the Vested Participant under Sections 4.a. or 4.b. (including the spousal survivor benefit payable pursuant to Section 4.e. with respect to any Vested Participant survived by a spouse) if he had retired on the date of his death. The lump sum present value of the retirement benefit shall be calculated using: (x) for each Vested Participant who was a Vested Participant on January 1, 1998, (i) the 83 GAM mortality tables; and (ii) an interest rate equal to the sum of one-twelfth (1/12th) of each PBGC Interest Rate for the twelve (12) months immediately preceding the date of the Vested Participant's death; and (y) for each Vested Participant who first became a Vested Participant after January 1, 1998, (i) the prevailing commissioner's standard mortality table (described in Section 807(d)(5)(A) of the Internal Revenue Code of 1986, as amended from time to time) used to determine reserves for group annuity contracts issued on the date of the Vested Participant's death (without regard to any other subparagraph for such Section 807(d)(5)) that is prescribed by the Commissioner of the Internal Revenue Service in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin; and (ii) an interest rate equal to the Lump Sum Interest Rate as of the date of the Vested Participant's death. Notwithstanding anything in this paragraph to the contrary, the lump sum cash value of the benefit described in this Section 4.d. with respect to each Vested Participant who (A) was a Vested Participant as of January 1, 1998 and (B) whose employment with the Corporation terminated due to his or her death on or after January 1, 2002, shall be equal to the greater of the value of the lump sum cash payment calculated pursuant to the rates and factors set forth in subsections (x) or (y) of this paragraph.

e. Post-Retirement Death Benefit. If a Vested Participant who is receiving monthly retirement benefits under this Plan following his termination of employment by the Corporation dies, his surviving spouse, if he is survived by a spouse, shall be entitled to receive a death benefit which shall be a monthly payment for the spouse's life, beginning on the first day of the month following the Vested Participant's death, equal to:

(1) fifty percent (50%) of the monthly retirement benefit to which the Vested Participant was entitled under the Plan prior to his death;

reduced by:

(2) the monthly annuity value of any life insurance provided by the Corporation or any affiliate thereof for retired employees that is in excess of post-retirement group term life insurance regularly provided by the Corporation or any affiliate thereof.

5. ADMINISTRATION OF THE PLAN. The Committee is charged with the administration of the Plan. It shall have full power and authority to construe and interpret the Plan. Its decisions shall be final, conclusive and binding on all parties. Subject to Section 10 of this Plan, the Committee shall also have the power, in its sole discretion, at any time (i) to waive, in whole or in part, application of any of the eligibility requirements of Section 3 or of the benefit reduction factors in Sections 4.a. and 4.b. and (ii) to determine the timing and form of payment of any benefit under the Plan, in the case of any individual Participant, Vested Participant or other employee of the Corporation who has participated in the performance share unit portion of the KEIP.

6. OPTIONAL FORMS OF PAYMENT. In lieu of the monthly retirement benefit (including the spousal survivor benefit payable pursuant to Section 4.e. hereof) payable pursuant to Section 4.a. or 4.b. hereof to a Vested Participant (and his surviving spouse) who retires (or whose employment is terminated other than for Cause) after August 2, 1994 (such benefit payable to a Vested Participant and/or his surviving spouse is herein referred to for purposes of this Section 6 as the "Applicable Retirement Benefit"), such Vested Participant may elect to receive the following form of benefit payment:

A lump sum cash payment, payable to the Vested Participant within ten (10) days after the Vested Participant's date of retirement (or the Vested Participant's date of termination of employment other than for Cause), equal to the actuarial present value of the Applicable Retirement Benefit, calculated using: (x) for each Vested Participant who was a Vested Participant on January 1, 1998, (i) the 83 GAM mortality tables; and (ii) an interest rate equal to one-twelfth (1/12th) of each PBGC Interest Rate for the twelve (12) months immediately preceding the date of the Vested Participant's retirement (or the Vested Participant's date of termination of employment other than for Cause), calculated in accordance with the Corporation's practices for determining retirement benefits; and (y) for each Vested Participant who first became a Vested Participant after January 1, 1998 (i) the prevailing commissioner's standard mortality table (described in Section 807(d)(5)(A) of the Internal Revenue Code of 1986, as amended from time to time) used to determine reserves for group annuity contracts issued on the date of the Vested Participant's retirement (or the Vested Participant's date of termination of employment other than for Cause) (without regard to any other subparagraph of such Section 807(d)(5)) that is prescribed by the Commissioner of the Internal Revenue Service in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin; and (ii) an interest rate equal to the Lump Sum Interest Rate as of the date of the Vested Participant's retirement. Notwithstanding anything in this paragraph to the contrary, the lump sum cash value of the Applicable Retirement Benefit for each Vested Participant who (A) was a Vested Participant as of January 1, 1998 and (B) whose employment with the Corporation terminated on or after January 1, 2002, shall be equal to the greater of the value of the lump sum cash payment calculated pursuant to the rates and factors set forth in subsections (x) or (y) of this paragraph.

Any such election must be made by those Participants designated by the Committee from time to time at least two (2) years and by all other Participants at least one (1) year prior to the date that the Applicable Retirement Benefit payments would otherwise become payable. Notwithstanding anything in the preceding sentence to the contrary, any Vested Participant who was eligible for enhanced benefits under the ERP and terminates his or her employment with the Corporation under the terms and conditions of the ERP, shall, with the Committee's approval, be allowed to make such election at any time prior to the date that his or her Applicable Retirement Benefit payment would otherwise be payable.

7. PAYMENT UPON CHANGE IN CONTROL

a. Any former employee or the surviving spouse of an employee or former employee who is receiving a benefit under Sections 4.a., 4.b., 4.d. or
4.e. hereof (or pursuant to the terms of any version of this Plan) at the time of a Change in Control (collectively or individually, "SERP Recipient") shall receive, in lieu of the future monthly retirement benefit (including the spousal survivor benefit in the case of a benefit under Section 4.a. or 4.b.) to which he is entitled (such future benefit payable to the SERP Recipient is herein referred to for purposes of this Section 7.a. as the "Future Retirement Benefit"), a lump sum cash payment, payable to the SERP Recipient, as applicable, within ten (10) days after a Change in Control (or such later date that is forty-five (45) days after the notice required by the following provisions of this Section 7.a. is provided to the applicable SERP Recipient), equal to the actuarial present value of his Future Retirement Benefit, calculated using: (x) for each SERP Recipient who was (or whose benefit is applicable to a Vested Participant who was) a Vested Participant on January 1, 1998, (i) the 83 GAM mortality tables; and (ii) an interest rate equal to the PBGC Interest Rate as of the date of the Change in Control; and (y) for each SERP Recipient who first became (or whose benefit is the result of a Vested Participant who first became) a Vested Participant after January 1, 1998, (i) the prevailing commissioner's standard mortality table (described in Section
807(d)(5)(A) of the Internal Revenue Code of 1986, as amended from time to time) used to determine reserves for group annuity contracts issued on the date of the Change in Control (without regard to any other subparagraph for such Section 807(d)(5)) that is prescribed by the Commissioner of the Internal Revenue Service in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin; and (ii) an interest rate equal to the Lump Sum Interest Rate as of the date of the Change in Control. Notwithstanding anything in this paragraph to the contrary, the lump sum cash value of the benefit described in this Section 7.a. for each SERP Recipient who was, or whose benefit is applicable to a Vested Participant who (A) was a Vested Participant as of January 1, 1998 and (B) whose employment with the Corporation terminated on or after January 1, 2002, shall be equal to the greater of the value of the lump sum cash payment calculated pursuant to the rates and factors set forth in subsections (x) or (y) of this paragraph.

Notwithstanding the foregoing, the provisions of this Section
7.a. shall not apply with respect to a SERP Recipient unless such SERP Recipient consents to the application of this Section 7.a. within thirty (30) days after the date the SERP Recipient receives written notice of the terms of this Section
7.a., as provided for by the following sentence. The Corporation shall provide each SERP Recipient, a written notice of the terms of this Section 7.a. and the consent requirement contained herein not later than five (5) days after the earliest of (x) the occurrence of a Potential Change in Control, (y) the date that the Corporation provides notice to its stockholders that a vote on a transaction which, if consummated, would constitute a Change in Control will be submitted to the Corporation's stockholders for approval, or (z) the occurrence of a Change in Control.

b. For purposes of Sections 7 and 10, a "Change in Control" means:

(1) Individuals who, on June 8, 1999, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to June 8, 1999, whose election or nomination for election was approved by a vote of at least two-thirds (2/3) of the Incumbent Directors then on the Board (either by specific vote or by approval of the proxy statement of the Corporation in which such person is named as nominee for director, without written objection to such nomination) shall be an Incumbent Director; PROVIDED, HOWEVER, that no individual initially elected or nominated as a director of the Corporation as a result of an actual or threatened election contest (as described in Rule 14a-11 under the Exchange Act) ("Election Contest") or other actual or threatened solicitation of proxies or consents by or on behalf of any Person other than the Board ("Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; and PROVIDED FURTHER, HOWEVER, that a director who has been approved by the Hershey Trust while it beneficially owns more than 50% of the combined voting power of the then outstanding voting securities of the Corporation entitled to vote generally in the election of directors (the "Outstanding Company Voting Power") shall be deemed to be an Incumbent Director;

(2) The acquisition or holding by any Person of beneficial ownership (within the meaning of Section 13(d) under the Exchange Act and the rules and regulations promulgated thereunder) of shares of the Common Stock and/or the Class B Common Stock of the Corporation representing 25% or more of either (i) the total number of then outstanding shares of both Common Stock and Class B Common Stock of the Corporation (the "Outstanding Company Stock") or (ii) the Outstanding Company Voting Power; provided that, at the time of such acquisition or holding of beneficial ownership of any such shares, the Hershey Trust does not beneficially own more than 50% of the Outstanding Company Voting Power; and provided, further, that any such acquisition or holding of beneficial ownership of shares of either Common Stock or Class B Common Stock of the Corporation by any of the following entities shall not by itself constitute such a Change in Control hereunder: (i) the Hershey Trust; (ii) any trust established by the Corporation or by any Subsidiary for the benefit of the Corporation and/or its employees or those of a Subsidiary; (iii) any employee benefit plan (or related trust) sponsored or maintained by the Corporation or any Subsidiary; (iv) the Corporation or any Subsidiary or (v) any underwriter temporarily holding securities pursuant to an offering of such securities;

(3) The approval by the stockholders of the Corporation of any merger, reorganization, recapitalization, consolidation or other form of business combination (a "Business Combination") if, following consummation of such Business Combination, the Hershey Trust does not beneficially own more than 50% of the total voting power of all outstanding voting securities eligible to elect directors of (x) the surviving entity or entities (the "Surviving Corporation") or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Surviving Corporation; or

(4) The approval by the stockholders of the Corporation of (i) any sale or other disposition of all or substantially all of the assets of the Corporation, other than to a corporation (the "Acquiring Corporation") if, following consummation of such sale or other disposition, the Hershey Trust beneficially owns more than 50% of the total voting power of all outstanding voting securities eligible to elect directors (x) of the Acquiring Corporation or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Acquiring Corporation, or (ii) a liquidation or dissolution of the Corporation.

c. For purposes of Sections 7 and 10, a "Potential Change in Control" means:

(1) The Hershey Trust by action of any of the Board of Directors of Hershey Trust Company; the Board of Managers of Milton Hershey School; the Investment Committee of the Hershey Trust; and/or any of the officers of Hershey Trust Company or Milton Hershey School (acting with authority) undertakes consideration of any action the taking of which would lead to a Change in Control as defined herein, including, but not limited to consideration of (i) an offer made to the Hershey Trust to purchase any number of its shares in the Corporation such that if the Hershey Trust accepted such offer and sold such number of shares in the Corporation the Hershey Trust might no longer have more than 50% of the Outstanding Company Voting Power, (ii) an offering by the Hershey Trust of any number of its shares in the Corporation for sale such that if such sale were consummated the Hershey Trust might no longer have more than 50% of the Outstanding Company Voting Power or (iii) entering into any agreement or understanding with a person or entity that would lead to a Change in Control; or

(2) the Board approves a transaction described in subsection (2), (3) or (4) of the definition of a Change in Control contained in Section 7.b.

d. For purposes of this Section 7: (i) "Hershey Trust" means either or both of (a) the Hershey Trust Company, a Pennsylvania corporation, as Trustee for the Milton Hershey School, or any successor to the Hershey Trust Company as such trustee, and (b) the Milton Hershey School, a Pennsylvania not-for-profit corporation; (ii) "Exchange Act" shall mean the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder; (iii) "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d)(3) and 14(d) thereof; and (iv) "Subsidiary" shall mean any corporation controlled by the Corporation, directly or indirectly.

8. PAYMENT OF BENEFITS. Nothing contained in the Plan and no action taken pursuant to the provisions of the Plan shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Corporation and any Participant, Vested Participant, spouse of a Participant or Vested Participant, or any other person. No person other than the Corporation shall by virtue of the provisions of the Plan have any interest in such assets. To the extent that any person acquires a right to receive payments from the Corporation under the Plan, such right shall be no greater than the right of any unsecured general creditor of the Corporation. The right of any Vested Participant or

any other person to the payment of benefits under the Plan shall not be assigned, transferred, pledged or encumbered; such payments and the right thereto are expressly declared to be non-assignable and nontransferable. No payments hereunder shall be subject to the claim of the creditors of any Vested Participant or of any other person entitled to payments hereunder. Any payments required to be made pursuant to the Plan to a person who is under a legal disability may be made by the Corporation to or for the benefit of such person in such of the following ways as the Committee shall determine:

a. directly to such person.
b. to the legal representative of such person.
c. to a near relative of such person to be used for such person's benefit.
d. directly in payment of expenses of support, maintenance or education of such person.

The Corporation shall not be required to see to the application by any third party of any payments made pursuant to the Plan.

9. EFFECTIVE DATE OF PLAN. This Amended and Restated (2002) Supplemental Executive Retirement Plan shall be effective January 1, 2002 and Vested Participants who become eligible to retire under the Plan on or after that date shall be entitled to the benefits provided hereunder.

10. AMENDMENT, SUSPENSION OR TERMINATION OF THE PLAN. The Board of Directors of the Corporation may, at any time, suspend or terminate the Plan. The Board, or its duly appointed delegee, if applicable, may also from time to time, amend the Plan in such respects as it may deem advisable in order that benefits provided hereunder may conform to any change in law or in other respects which the Board, or its delegee in accordance with the Board's delegation of authority thereto, deems to be in the best interest of the Corporation. No such suspension, termination or amendment of the Plan shall adversely affect any right of any person who is a Vested Participant at the time of such suspension, termination or amendment or his beneficiary(ies), estate or surviving spouse, as applicable, to receive benefits under the Plan in accordance with its provisions in effect immediately prior to such suspension, termination or amendment without the consent of such Vested Participant, beneficiary(ies), estate or surviving spouse. Any benefits payable under the terms of the Plan at the time of any suspension, termination or amendment of the Plan shall remain in effect according to their original terms, or such alternate terms as may be in the best interests of both parties and agreed to by the Vested Participant or his beneficiaries, estate or surviving spouse, as applicable. Notwithstanding the foregoing, (a) the Plan may not be terminated or amended in any manner that is adverse to the interests of a Participant or the surviving spouse of a Participant without the consent of the Participant or surviving spouse, as applicable, either: (i) after a Potential Change in Control occurs and for one (1) year following the cessation of the Potential Change in Control, or (ii) for a two (2) year period beginning on the date of a Change in Control (the "Coverage Period"); and (b) no termination of this Plan or amendment hereof in a manner adverse to the interests of any Participant, or such Participant's surviving spouse, (without the consent of the Participant or surviving spouse) shall be effective if such termination or amendment occurs (i) at the request of a third party who has taken steps reasonably calculated to effect a Change of Control, or (ii) in connection with or in anticipation of a Change of Control. After the Coverage Period, the Plan may not be amended or terminated in any manner that would adversely affect the entitlement of a Participant or his surviving spouse (without the consent of the Participant or surviving spouse) to benefits that have accrued hereunder. For purposes of the immediately preceding two sentences of this Section 10, whether an employee of the Corporation qualifies as a Participant shall be determined at the time (a) the Coverage Period commences and any time thereafter or (b) his employment is terminated or the Plan is amended (i) at the request of a third party who has taken steps reasonably calculated to effect a Change of Control, or (ii) in connection with or in anticipation of a Change of Control.

IN WITNESS WHEREOF, Hershey Foods Corporation has caused this Hershey Foods Corporation Amended and Restated (2002) Supplemental Executive Retirement Plan to be executed as of the first day of January, 2002.

**HERSHEY FOODS CORPORATION**

*By: /s/ Marcella K. Arline*
*------------------------------*
*Marcella K. Arline*
*Vice President, Human Resources*

**SCHEDULE I**
**AMENDED AND RESTATED (2002)**
**SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

| | | | |
|---|---|---|---|
| January 2001 | 1.310% | January 2003 | 0.385% |
| February 2001 | 1.272% | February 2003 | 0.347% |
| March 2001 | 1.233% | March 2003 | 0.308% |
| April 2001 | 1.195% | April 2003 | 0.270% |
| May 2001 | 1.156% | May 2003 | 0.231% |
| June 2001 | 1.118% | June 2003 | 0.193% |
| July 2001 | 1.079% | July 2003 | 0.154% |
| August 2001 | 1.041% | August 2003 | 0.116% |
| September 2001 | 1.002% | September 2003 | 0.077% |
| October 2001 | 0.964% | October 2003 | 0.039% |
| November 2001 | 0.925% | November 2003 and each | |
| December 2001 | 0.887% | succeeding month | 0.000% |
| | | | |
| January 2002 | 0.848% | | |
| February 2002 | 0.809% | | |
| March 2002 | 0.771% | | |
| April 2002 | 0.732% | | |
| May 2002 | 0.694% | | |
| June 2002 | 0.655% | | |
| July 2002 | 0.617% | | |
| August 2002 | 0.578% | | |
| September 2002 | 0.540% | | |
| October 2002 | 0.501% | | |
| November 2002 | 0.463% | | |
| December 2002 | 0.424% | | |

**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**
(in thousands of dollars except for ratios)

| | March 31, 2002 | April 1, 2001 |
|---|---|---|
| Income before income taxes | $ 137,514 | $ 126,859 |
| Add (deduct): | | |
| Interest on indebtedness | 16,244 | 18,269 |
| Portion of rents representative of the interest factor (a) | 3,525 | 3,649 |
| Amortization of debt expense | 116 | 116 |
| Amortization of capitalized interest | 1,045 | 1,055 |
| Earnings as adjusted | $ 158,444 | $ 149,948 |
| Interest on indebtedness | $ 16,244 | $ 18,269 |
| Portion of rents representative of the interest factor (a) | 3,525 | 3,649 |
| Amortization of debt expense | 116 | 116 |
| Capitalized interest | 329 | 272 |
| Total fixed charges | $ 20,214 | $ 22,306 |

**NOTE:**
(a) Portion of rents representative of the interest factor consists of all rental expense pertaining to operating leases used to finance the purchase or construction of warehouse and distribution facilities, and one-third of rental expense for other operating leases.