

HERSHEY CO  
Form DEF 14A  
March 16, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. \_\_)**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**The Hershey Company**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**The Hershey Company**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

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DATE AND TIME                      April 17, 2007 at **10:00 a.m. Eastern Daylight Time**

PLACE                                      GIANT Center  
  
    950 West Hersheypark Drive  
  
    Hershey, PA 17033

ITEMS OF BUSINESS                      (1) Elect ten directors.  
    (2) Ratify the appointment of KPMG LLP as the Company's independent auditors for 2007.  
    (3) Approve The Hershey Company Equity and Incentive Compensation Plan.  
    (4) Discuss and take action on any other business that is properly brought before the meeting.

WHO CAN VOTE?                      You are entitled to vote at the meeting and at any adjournment or postponement of the meeting if you were a stockholder at the close of business on February 20, 2007, the record date for the annual meeting.

By order of the Board of Directors,

Burton H. Snyder

Senior Vice President,

General Counsel and Secretary

March 16, 2007

**Your vote is important. Please mark, date, sign and return the enclosed proxy/voting instruction card or, if you prefer, vote by using the Internet or by telephone. Voting instructions appear on the proxy/voting instruction card.**

**The Hershey Company**

100 Crystal A Drive

Hershey, Pennsylvania 17033

March 16, 2007

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**PROXY STATEMENT**

For the Annual Meeting of Stockholders

To Be Held on April 17, 2007

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The Board of Directors of The Hershey Company, a Delaware corporation, is furnishing this proxy statement to you in connection with the solicitation of proxies for our 2007 annual meeting of stockholders. The meeting will be held on April 17, 2007, at 10:00 a.m. Eastern Daylight Time, at GIANT Center, 950 West Hersheypark Drive, Hershey, Pennsylvania 17033. Valid proxies received in connection with the annual meeting may be voted at the annual meeting and at any adjournments or postponements of that meeting.

We intend to begin mailing this proxy statement and the proxy card to stockholders on or about March 16, 2007.

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**INFORMATION ABOUT THE ANNUAL MEETING AND VOTING**

**Annual Meeting Information**

**Why did I receive these materials?**

We hold a meeting of stockholders annually. This year's meeting will be held on April 17, 2007. There will be several items of business that must be voted on by our stockholders at the meeting, and our Board of Directors is seeking your proxy to vote on these items. This proxy statement contains important information about The Hershey Company and the matters that will be voted on at the meeting. Please read these materials carefully so that you have the information you need to make informed decisions. Throughout this proxy statement, we will refer to ourselves as The Hershey Company, Hershey, we, our or the Company.

**What is a proxy?**

A proxy is your legal designation of another person to vote the stock that you own. The person you designate to vote your shares is also called a proxy. When you submit a proxy, the people named on the proxy card are required to vote your shares at the annual meeting in the manner you have instructed. Please turn to page 3 for more information about voting your shares.

**What is the record date and why is it important?**

The record date is the date used by our Board of Directors to determine which stockholders of the Company are entitled to receive notice of, and vote on the items presented at, the annual meeting. Our Board established February 20, 2007 as the record date for the 2007 annual meeting.

**What is the difference between a registered stockholder and a stockholder who holds stock in street name?**

If you hold shares of Hershey stock directly in your name, you are a registered stockholder. If you own your Hershey shares indirectly through a broker, bank or other holder of record, those shares are held in street name.

**How do I gain admission to the annual meeting?**

If you owned Hershey stock on the record date, you may attend the annual meeting. If you are a *registered stockholder*, you must bring with you the admission ticket printed on the top half of your proxy card to gain admission to the meeting. If you hold your stock in *street name*, you should bring a letter from your broker, bank or other holder of record, or your most recent account statement, indicating that you were the beneficial owner of Hershey stock as of the record date for the meeting.

**What will occur at the annual meeting?**

Following opening remarks, stockholders will be offered an opportunity to submit completed voting ballots on the proposals to be presented at this year's meeting. Following the vote, we will provide an update on our business followed by an opportunity for stockholders to ask questions. Finally, we will provide a preliminary report on the votes cast for each of the proposals presented at the meeting.

**What proposals will I be voting on and how does the Board of Directors recommend I vote?**

	Proposal	Board Recommendation
No. 1	Election of ten directors, each to serve until the next annual meeting of stockholders and until his or her successor has been properly elected and qualified	FOR
No. 2	Ratification of the Audit Committee's selection of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2007	FOR
No. 3	Approval of the Equity and Incentive Compensation Plan	FOR

**What other matters might arise at the meeting?**

We are not aware of any other matters that will be brought before the stockholders at the annual meeting. Except under very limited circumstances, stockholder proposals and nominations for director had to be submitted to us in advance and meet certain requirements in order to be eligible for consideration at the meeting. We described those requirements in our 2006 proxy statement. If any other item of business is properly presented for a vote at the annual meeting, the proxies will vote validly executed proxies returned to us in accordance with their best judgment. Procedures for submitting stockholder proposals and nominations for director for the 2008 annual meeting are described on page 75.

**Voting Information**

**Does Hershey have more than one class of stock outstanding?**

We have two classes of stock outstanding, Common Stock and Class B Common Stock. As of the record date for the annual meeting, there were 169,968,894 shares of Common Stock outstanding and 60,816,078 shares of Class B Common Stock outstanding. All of the outstanding shares of Common Stock and Class B Common Stock are entitled to be voted at the meeting.

**What are the voting rights of each class of stock?**

You may cast one vote for each share of Common Stock that you held as of the close of business on the record date. You may cast ten votes for each share of Class B Common Stock that you held as of the close of business on the record date.

**What is a quorum and why is it important?**

A quorum is the minimum number of votes required to be present at the annual meeting to conduct business. Votes will be deemed to be present at the meeting if a stockholder of record:

attends the meeting in person, or

votes in advance by Internet, telephone or proxy card.

Abstentions and broker non-votes are counted as being present and entitled to vote in determining whether a quorum is present.

In most instances, holders of the Common Stock and Class B Common Stock vote together. However, there are some matters that must be voted on only by the holders of one class of stock.

We will have a quorum at the annual meeting if the following number of votes is present, in person or by proxy:

*For any matter requiring the vote of the Common Stock voting separately:* a majority of the votes of the Common Stock outstanding on the record date.

*For any matter requiring the vote of the Class B Common Stock voting separately:* a majority of the votes of the Class B Common Stock outstanding on the record date.

*For any matter requiring the vote of the Common Stock and Class B Common Stock voting together without regard to class:* a majority of the votes of the Common Stock and Class B Common Stock outstanding on the record date.

**What vote is required to approve each proposal?**

*Proposal No. 1: Election of Directors.* Ten directors are to be elected at our annual meeting. As required by our certificate of incorporation and by-laws:

One-sixth of our directors (which equates presently to two directors) will be elected by the holders of our Common Stock voting separately as a class.

The remaining eight directors will be elected by the holders of our Common Stock and Class B Common Stock voting together without regard to class.

You can cast your vote **FOR** any or all of the director nominees named on the proxy card or **WITHHOLD** your vote on any or all of the nominees. Please refer to the proxy card for voting instructions.

Directors will be elected by *plurality*. That means the nominees who receive the greatest number of properly cast **FOR** votes will be elected.

Bonnie G. Hill and Alfred F. Kelly, Jr. have been nominated by the Board for election by the holders of our Common Stock voting separately at the 2007 annual meeting. The other director nominees have been nominated for election by the holders of our Common Stock and Class B Common Stock voting together. Please go to page 22 for more information about Proposal No. 1.

*Proposal Nos. 2 and 3.* Holders of record of our Common Stock and Class B Common Stock present (in person or by proxy) at the annual meeting will approve each of Proposals 2 and 3 if they cast more votes in favor of the proposal than against the proposal. We have provided additional information about these proposals in this proxy statement.

**How can I vote my shares before the meeting?**

You may vote your shares prior to the meeting by following the instructions provided on the proxy/voting instruction card enclosed with your proxy materials.

If you are a *registered stockholder*, there are three ways to vote your shares before the meeting:

*By Internet (www.proxyvote.com):* Use the Internet to transmit your voting instructions until 11:59 p.m. EDT on April 16, 2007. Have your proxy card with you when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

*By telephone (1-800-690-6903):* Use any touch-tone telephone to submit your vote until 11:59 p.m. EDT on April 16, 2007. Have your proxy card in hand when you call and then follow the instructions you receive from the telephone voting site.

*By mail:* Mark, sign and date the proxy card enclosed with these materials and return it in the postage-paid envelope we have provided. To be valid, proxy cards must be received before the start of the annual meeting. Proxy cards should be returned to The Hershey Company, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

If your shares are held in *street name*, your broker, bank or other holder of record will provide you with a voting instruction card so you can instruct your broker, bank or other holder of record how to vote your shares. As an alternative to submitting your voting instructions by mail, you may be able to submit your voting instructions over the Internet or by telephone. Please refer to the voting instruction card for more information about how to vote your street-name shares.

**Can I vote at the meeting?**

If you are a *registered stockholder*, you can vote at the meeting any shares that were registered in your name as the stockholder of record as of the record date.

If your shares are held in *street name*, you are not a holder of record of those shares and cannot vote them at the annual meeting unless you have a legal proxy from the holder of record. If you plan to attend and vote your street-name shares at the annual meeting, you should request a legal proxy from your broker, bank or holder of record and bring it with you to the meeting.

If you plan to vote at the meeting, please pick up a ballot at the registration table upon your arrival. You may then either deposit your ballot in any of the designated voting boxes located inside the meeting room before the meeting begins, or submit your ballot to a meeting usher at the time designated during the meeting. *Ballots will not be distributed during the meeting.* Shares may not be voted after the polls close.

Whether or not you plan to attend the meeting, we strongly encourage you to vote by proxy prior to the meeting.

**Can I revoke my proxy or change my voting instructions once submitted?**

If you are a *registered stockholder*, you can revoke your proxy and change your vote at any time prior to the annual meeting by:

notifying our Corporate Secretary in writing at 100 Crystal A Drive, Hershey, PA 17033 (the notification must be received by the close of business on April 16, 2007);

voting again by Internet or telephone prior to 11:59 p.m. EDT on April 16, 2007 (only the latest vote you submit will be counted); or

submitting a new properly signed and dated proxy card with a later date (your proxy card must be received by the close of business on April 16, 2007).

If your shares are held in *street name*, you should contact your broker, bank or other holder of record about revoking your proxy and changing your vote prior to the meeting.

If you are eligible to vote at the annual meeting, you also can revoke your proxy and change your vote at the annual meeting by submitting a written ballot before the polls close.



**What will happen if I provide my proxy but do not vote on a proposal?**

You should provide voting instructions for all proposals appearing on the proxy/voting instruction card. The persons named as proxies on the enclosed proxy card will vote your shares according to your instructions. However, if you fail to provide instructions on how you want your shares to be voted, properly signed and dated proxies will be voted:

- FOR the election of all director nominees;
- FOR the ratification of the appointment of KPMG LLP as our independent auditors for 2007; and

FOR the approval of the Equity and Incentive Compensation Plan.

If any other item is properly presented for a vote at the meeting, the shares represented by your properly signed and dated proxy will be voted by the proxies using their own best judgment.

**What will happen if I do not provide my proxy?**

If you are a *registered stockholder*, your shares will not be voted.

If your shares are held in *street name*, your broker, bank or other holder of record might be authorized to vote your shares on certain routine matters. The New York Stock Exchange considers the election of directors and the ratification of independent auditors to be routine matters. On these matters, your broker or nominee can:

vote your street-name shares on these items even though you have not provided voting instructions, or

choose not to vote your shares on these matters.

The remaining proposal in this year's proxy statement is not routine and cannot be voted without your instructions. When a broker or nominee is unable to vote shares for this reason, it is called a broker non-vote.

**Are abstentions and broker non-votes counted in the vote totals?**

When a stockholder abstains from voting on any proposal (other than the election of directors), the abstention is counted as a vote **AGAINST** the proposal. Broker non-votes are not included in vote totals and will not affect the outcome of the vote.

**How do I vote if I am a participant in one of the Company's 401(k) Plans?**

If you are a participant in either The Hershey Company 401(k) Plan (formerly known as The Hershey Company Employee Savings Stock Investment and Ownership Plan) or The Hershey Company Puerto Rico 401(k) Plan (formerly known as the Hershey Foods Corporation Puerto Rico Employee Savings Stock Investment and Ownership Plan), and you meet the vesting requirements of the plan, you may have certain voting rights regarding shares of our Common Stock credited to your account in the plan. You do not own these shares. They are owned by the trustee.

The plan provides you with voting rights based on the number of shares of Hershey Common Stock that were constructively invested in your plan account as of the close of business on the record date. We originally contributed these shares to the plan on your behalf as matching or

supplemental retirement contributions. You may vote these shares in much the same way as registered stockholders vote their shares, but you have an earlier deadline. Your vote must be received by the trustee by 11:59 p.m. EDT on April 12, 2007. You may vote these shares using the Internet or telephone voting procedures described on the enclosed proxy/voting instruction card, or vote by mail by signing, dating and returning the proxy/voting instruction card.

By submitting voting instructions, you will direct the plan trustee:

how to vote the shares of Common Stock allocated to your account in the plan; and

how to vote a portion of the shares of Common Stock allocated to the accounts of other participants in the plan who have not submitted voting instructions by the deadline.

The plan trustee will submit one proxy to vote all shares of Common Stock in the plan. The trustee will vote the shares of participants submitting voting instructions in accordance with their instructions and will vote the remaining shares of Common Stock in the plan in the same proportion as the final votes of all participants who actually voted. Please note that if you do not submit voting instructions for the shares of Common Stock in your account by the voting deadline, those shares will be included with the other undirected shares and voted by the trustee as described above. Because the trustee submits one proxy to vote all shares of Common Stock in the plan, you may not vote plan shares in person at the annual meeting.

#### **How do I vote my shares in the Company's Automatic Dividend Reinvestment Service Plan?**

Mellon Investor Services LLC, our transfer agent, has arranged for any shares that you hold in the Automatic Dividend Reinvestment Service Plan to be included in the total registered shares of Common Stock shown on the proxy card we have provided you with these materials. By voting the shares represented on the enclosed proxy card, you will also be voting your shares in the Automatic Dividend Reinvestment Service Plan.

#### **Additional Information about the Annual Meeting**

##### **Who will pay the cost of soliciting votes for the annual meeting?**

We will pay the cost of preparing, assembling and distributing proxy solicitation and other required annual meeting materials. We do not use a third-party solicitor. It is possible that our directors, officers and employees might solicit proxies by mail, telephone, telefax, electronically over the Internet or by personal contact, without receiving additional compensation. We will reimburse brokers, banks and other nominees, fiduciaries and custodians who nominally hold shares of our stock as of the record date for the reasonable costs they incur forwarding proxy solicitation and other required annual meeting materials to street-name holders who beneficially own those shares on the record date.

##### **How are proxy solicitation and other required annual meeting materials distributed?**

We generally distribute these materials by mail. However, we also are permitted to distribute these materials electronically over the Internet to stockholders who consent to receive the materials in this manner.

When you receive these materials over the Internet, you help us save money because our printing and postage expenses are reduced. Instead of receiving a bulky mailing, you will receive an email

message notifying you that the materials are available for viewing online. In addition, when you are ready to vote, you may submit your voting instructions online.

To enroll for electronic delivery and proxy voting, please go to our website, [www.hersheys.com](http://www.hersheys.com), and select the **Investor Relations** tab located on the left-hand column of our homepage. When the Investor Relations homepage appears, select the **Online Proxy/Voting** tab located along the left-hand column of the page and follow the instructions. If you do not enroll for electronic delivery, you will continue to receive these materials in the mail.

**What is householding?**

The Securities and Exchange Commission, or SEC, has adopted rules that allow us to send a single copy of our proxy solicitation and other required annual meeting materials to two or more stockholders sharing the same address. We may do this only if the stockholders at that address share the same last name or if we reasonably believe that the stockholders are members of the same family. The rules require us to send each stockholder at the shared address a separate proxy card or voting instruction card.

We believe this rule is beneficial to both our stockholders and to us. Our printing and postage costs are lowered anytime we eliminate duplicate mailings to the same household. However, any stockholder at a shared address may continue to receive a separate copy of these materials. Please contact our Investor Relations department at (800) 539-0261 for a copy of the materials for the 2007 annual meeting. Upon receipt of your notice, a copy of the materials will be sent to you promptly. If you consented to the householding program and wish to revoke your consent for future years, simply call, toll free, (800) 542-1061, or write to ADP, Householding Department, 51 Mercedes Way, Edgewood, New York 11717.

**What does it mean if I received more than one proxy card?**

You probably have multiple accounts with us and/or brokers, banks or other nominees. You should vote all of the shares represented by these proxy cards. Certain brokers, banks and nominees have procedures in place to discontinue duplicate mailings upon a stockholder's request. You should contact your broker, bank or nominee for more information. Additionally, our transfer agent, Mellon Investor Services LLC, can assist you if you want to consolidate multiple registered accounts existing in your name. To contact our transfer agent, write to Mellon Investor Services LLC, 480 Washington Blvd., Jersey City, NJ 07310, or call:

(800) 851-4216 Domestic Holders

(201) 680-6578 Foreign Holders

(800) 231-5469 Domestic TDD line for hearing impaired

(201) 680-6610 Foreign TDD line for hearing impaired

**Will you publish the results of voting?**

Preliminary results of voting will be announced at the annual meeting. The final voting results will be published in the Company's quarterly report on Form 10-Q for the second quarter of 2007. We will file that report with the SEC by August 8, 2007. The final results also will be posted in the Investor Relations section of the Company's website, [www.hersheys.com](http://www.hersheys.com), as soon as they are certified by the Inspector of Elections for the annual meeting. This typically occurs within two weeks after the meeting date. To find the voting results on our website, simply select the **Investor Relations** tab located on the left-hand column of our homepage. When the Investor Relations

homepage appears, select the Voting Results tab located along the left-hand column of the page. Questions also may be directed to our Investor Relations department at (800) 539-0261.

## GOVERNANCE OF THE COMPANY

### What is corporate governance?

Corporate governance is the process by which companies govern themselves.

At The Hershey Company, day-to-day business activities are carried out by our employees under the direction and supervision of our Chief Executive Officer, or CEO. The Board of Directors oversees these activities. In doing so, each director is required to use his or her business judgment in the best interests of the Company. The Board's responsibilities include:

Review of the Company's performance, strategies and major decisions;

Oversight of the Company's compliance with legal and regulatory requirements and the integrity of its financial statements;

Oversight of management, including review of the CEO's performance and succession planning for key management roles; and

Oversight of compensation for the CEO, key executives and the Board, as well as oversight of compensation policies and programs for all employees.

### What principles has the Board established with respect to corporate governance?

The general principles governing the functions of our Board and its committees are contained in the following documents:

*Corporate Governance Guidelines:* Our Corporate Governance Guidelines provide the basic framework for the Board's role in the governance of the Company. The guidelines include the Board's policies regarding director independence, qualification, responsibilities, access to management and outside advisors, compensation, continuing education, oversight of management succession and stockholding requirements. They also provide a process for directors to annually evaluate the performance of the Board. The Corporate Governance Guidelines were last amended and restated by the Board on February 13, 2007. We have included a copy of the Corporate Governance Guidelines as Appendix A to this proxy statement.

*Board Committee Charters:* The Board has adopted a charter for each standing committee of the Board—the Audit Committee, the Compensation and Executive Organization Committee, the Governance Committee and the Executive Committee. The charters comply with the requirements of the Sarbanes-Oxley Act of 2002, rules of the SEC and listing standards of the New York Stock Exchange. We believe the charters reflect current best practices in corporate governance.

*Code of Ethical Business Conduct:* The Board has adopted a Code of Ethical Business Conduct. Adherence to this Code assures that our directors, officers and employees are held to the highest standards of integrity. The Code covers areas such as conflicts of interest, insider trading and compliance with laws and regulations. The Audit Committee oversees the Company's communication of, and compliance with, the Code.

You can view the Corporate Governance Guidelines, committee charters and Code of Ethical Business Conduct in the Investor Relations section of our website, [www.hersheys.com](http://www.hersheys.com). Once you are in the Investor Relations section, look for the heading Corporate Governance in the right-

hand column of the page and select the appropriate subheading. We will post amendments to any of these documents on our website as soon as possible after the effective date of the amendment. If any amendment or waiver of the Code of Ethical Business Conduct applies to directors or executive officers, our posting will appear within four business days of the amendment or waiver.

We also will provide written copies of any of these documents free of charge to our stockholders. Requests for copies should be addressed to:

The Hershey Company

Attention: Investor Relations Department

100 Crystal A Drive

P. O. Box 810

Hershey, PA 17033-0810

**What is the composition of the Board and how often are members elected?**

There currently are ten members of the Board. Each member's term will expire at the annual meeting. As discussed in greater detail beginning on page 22, the Board is recommending that you re-elect each of these ten members for an additional one-year term at the annual meeting.

**Which directors are independent, and how does the Board make that determination?**

In February of each year, the Board determines which of our directors are independent. For a director to be considered independent under the listing standards of the New York Stock Exchange, the Board must affirmatively determine that the director has no direct or indirect material relationship with The Hershey Company. The Board has adopted categorical standards for independence that the Board uses when determining which directors are independent. Rather than have one set of standards for Board members as a whole and additional standards for Audit Committee members, as permitted by the New York Stock Exchange, the Board bases its determination of independence for all directors on the more stringent standards applicable to Audit Committee members. These standards are contained in our Corporate Governance Guidelines. You can review these standards by turning to page A-2 of Appendix A.

Applying the categorical standards for independence, the listing standards of the New York Stock Exchange and rules of the SEC, the Board determined that the following directors recommended for election at the annual meeting are independent: Jon A. Boscia, Robert H. Campbell, Robert F. Cavanaugh, Gary P. Coughlan, Harriet Edelman, Bonnie G. Hill, Alfred F. Kelly, Jr., Mackey J. McDonald and Marie J. Toulantis. The Board determined that Richard H. Lenny, Chairman of the Board, President and Chief Executive Officer of The Hershey Company, is not independent because he is an executive officer of the Company.

The Board determined that Mmes. Edelman and Toulantis and Messrs. Boscia, Campbell and McDonald have no relationship to the Company other than their relationship as director and stockholder. Ms. Hill and Messrs. Cavanaugh, Coughlan and Kelly have certain relationships with the Company, in addition to being directors and stockholders, that the Board considered but determined ultimately not to be material.

*Ms. Hill.* Ms. Hill was a director of Albertsons, Inc., until June 2, 2006, when a portion of the assets of Albertsons was sold and the surviving business of Albertsons merged with Supervalu Inc. Prior to June 2, 2006, Albertsons was a customer of the Company. All sales to Albertsons in 2006 were made in the ordinary course of business. Ms. Hill is also a director of The

Home Depot, a customer of the Company. All sales to The Home Depot in 2006 were made in the ordinary course of business.

*Mr. Cavanaugh.* Mr. Cavanaugh is an independent member of the board of directors of Hershey Trust Company and the board of managers (governing body) of Milton Hershey School. He was initially recommended for nomination to our Board by the Milton Hershey School Trust in 2003. Mr. Cavanaugh does not receive any compensation from The Hershey Company, from Hershey Trust Company or from Milton Hershey School other than compensation he receives in the ordinary course as a board member of each of those entities. We do not expect these compensation arrangements to change materially in 2007. Hershey Trust Company and the Milton Hershey School Trust are stockholders of the Company whose holdings are described in greater detail beginning on page 29 of this proxy statement. Under SEC rules, Hershey Trust Company, the Milton Hershey School Trust and companies controlled by the Milton Hershey School Trust are considered affiliates of the Company. During 2006, we had a number of transactions with the Milton Hershey School Trust and companies owned by the Milton Hershey School Trust involving the purchase and sale of goods and services in the ordinary course of business. We also purchased shares of our Common Stock from the Milton Hershey School Trust during 2006. Mr. Cavanaugh did not participate in Board decisions in connection with these transactions. We have outlined these transactions in greater detail in the section entitled "Certain Transactions and Relationships," beginning on page 72 of this proxy statement.

*Mr. Coughlan.* The Company employs Mr. Coughlan's adult daughter as a retail sales representative in our Sales Department. She is employed and compensated in a manner consistent with our policies that apply to all employees. She has not been a resident of Mr. Coughlan's household at any time within the past three years.

*Mr. Kelly.* Mr. Kelly is an executive officer of American Express Company. American Express and its subsidiaries provide credit card and travel-related services to the Company and its employees. These services were provided in the ordinary course of business. We do not expect that the types of services provided or the amount of payments made to American Express will change materially in 2007.

**Do our independent directors meet separately in regularly scheduled executive sessions, and, if so, who presides at those meetings?**

Our independent directors meet regularly in executive session at the conclusion of every Board meeting, and at other times as the independent directors deem necessary. Each executive session is chaired by an independent director assigned on a rotating basis. This process allows each independent director an opportunity to serve as the lead director. Members of the Audit Committee, Governance Committee and Compensation and Executive Organization Committee also meet regularly in executive session at the conclusion of committee meetings. Additional information about executive sessions is contained in our Corporate Governance Guidelines. To learn more, please turn to page A-4 of Appendix A.

**Can I communicate with directors?**

You may communicate with our directors in several ways. Communications regarding accounting, internal accounting controls or auditing matters may be addressed to the Audit Committee at the following address:

Audit Committee

c/o Corporate Secretary

The Hershey Company

100 Crystal A Drive

P. O. Box 810

Hershey, PA 17033

You also may email the Audit Committee at [auditcommittee@hersheys.com](mailto:auditcommittee@hersheys.com). Finally, you may submit your comments, confidentially and anonymously, if you desire, to the Audit Committee by calling the Hershey Concern Line at 1-800-362-8321 or by accessing the Hershey Concern Line website at [www.HersheysConcern.com](http://www.HersheysConcern.com).

You may contact the independent directors at the following address:

Independent Directors

c/o Corporate Secretary

The Hershey Company

100 Crystal A Drive

P. O. Box 810

Hershey, PA 17033

You also may email the independent directors at [independentdirectors@hersheys.com](mailto:independentdirectors@hersheys.com) or contact the independent directors using the Hershey Concern Line telephone number or website noted above.

Under the procedures approved by our Board, the Audit Committee will address communications in accordance with its Procedures for Submission and Handling of Complaints Regarding Compliance Matters, which are available for viewing in the Investor Relations section of our website at [www.hersheys.com](http://www.hersheys.com). Communications to the Audit Committee and/or our independent directors are processed by the Office of General Counsel. The Office of General Counsel reviews and summarizes these communications and provides reports to the Audit Committee on a periodic basis. Communications regarding any accounting, internal control or auditing matter are reported immediately to the Audit Committee, as are allegations about our officers. Solicitations, junk mail and obviously frivolous or inappropriate communications are not forwarded to the Audit Committee, but copies are retained and made available to any director who wishes to review them.

**How often did the Board meet in 2006?**

The Board held six regular meetings in 2006. Each director attended at least 87% of all of the meetings of the Board and committees of the Board on which he or she served (during the period he or she served) in 2006. Average attendance for all of these meetings equaled 96%.

**What is the Company's policy regarding Board members' attendance at the annual meeting?**

Directors are expected to attend our annual meetings of stockholders. All ten directors standing for election at our 2006 annual meeting, held on April 18, 2006, were in attendance at that meeting.





**What are the committees of the Board and what are their functions?**

The Board has four standing committees: Audit, Compensation and Executive Organization, Governance, and Executive. The Board also establishes, from time to time, committees of limited duration for a special purpose. Our Corporate Governance Guidelines require that every member of the Audit Committee, Compensation and Executive Organization Committee and Governance Committee be independent.

**Audit Committee**

9 meetings in 2006

Members: Gary P. Coughlan (Chair)

Robert H. Campbell

Robert F. Cavanaugh

Harriet Edelman

Alfred F. Kelly, Jr.

Marie J. Toulantis

Independence: The Board has determined that all directors on this Committee are independent under applicable listing standards of the New York Stock Exchange, Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and the Company's Corporate Governance Guidelines.

Responsibilities: Assists the Board in its oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the qualifications and independence of the Company's independent auditors and the performance of the independent auditors and the Company's internal audit function;

Directly oversees and has direct responsibility for the appointment, compensation, retention and oversight of the work of the independent auditors;

Approves all audit and non-audit engagement fees and terms with the independent auditors; and

Administers our Procedures for Submission and Handling of Complaints Regarding Compliance Matters.

Charter: A current copy of the charter of the Audit Committee may be viewed on the Company's website at [www.hersheys.com](http://www.hersheys.com) in the Investor Relations section.

Qualifications: The Board has determined that all directors on this Committee are financially literate, that at least one member of the Audit Committee, Gary P. Coughlan, qualifies as an audit committee financial expert as defined in SEC regulations, and that Mr. Coughlan has accounting or related financial management expertise.

**Compensation and Executive Organization Committee**

8 meetings in 2006

Members: Robert H. Campbell (Chair)

Robert F. Cavanaugh

Harriet Edelman

Bonnie G. Hill

Mackey J. McDonald

Independence: The Board has determined that all directors on this Committee are independent under the listing standards of the New York Stock Exchange and the Company's Corporate Governance Guidelines.

Responsibilities: Establishes the compensation of the Company's directors and elected officers (other than the Chairman, President and Chief Executive Officer);

Evaluates the performance of and recommends to the independent directors of the full Board as a group the compensation of the Company's Chairman, President and Chief Executive Officer;

Grants performance stock units, stock options, restricted stock units and other rights under the Long-Term Incentive Program of the Company's Key Employee Incentive Plan, as amended ( Incentive Plan ), or any successor plan;

Establishes target-award levels and makes awards under the Annual Incentive Program of the Incentive Plan;

Administers the Incentive Plan, the Executive Benefits Protection Plans, the Employee Benefits Protection Plan and the Supplemental Executive Retirement Plan;

Monitors compensation arrangements for management employees for consistency with corporate objectives and stockholders' interests;

Reviews the executive organization of the Company; and

Monitors the development of personnel available to fill key management positions as part of the succession planning process.

Charter: A current copy of the charter of the Compensation and Executive Organization Committee may be viewed on the Company's website at [www.hersheys.com](http://www.hersheys.com) in the Investor Relations section.

The Compensation and Executive Organization Committee establishes director and executive officer compensation in accordance with the authority granted by its charter and the Board-approved compensation plans the Committee administers. The Committee may delegate its responsibilities under limited circumstances to a subcommittee composed only of a subset of Committee members. Also, under the terms of the Board- and stockholder-approved Incentive Plan, the Committee is authorized to provide our CEO with limited authority to make stock-based awards to non-executive employees in connection with recruitment, retention, performance recognition or promotion. The Incentive Plan does not authorize our CEO to make grants to our executive officers.

The Committee engaged Towers Perrin, an executive compensation consultant, to provide independent assistance to the Committee with respect to the Committee's development and refinement of our compensation policies and the Committee's assessment of whether our compensation programs support our business objectives, are market competitive and are cost-efficient. Each year, Towers Perrin prepares the following studies for use by the Committee in setting director and executive officer compensation:

*Executive Compensation Market Competitiveness Study:* This study analyzes food manufacturing, processing and distribution industry compensation survey data for approximately 45 key positions and is drawn from the Towers Perrin Executive Compensation database.

*Chief Executive Officer Proxy Compensation Study:* This study analyzes compensation for CEOs in Hershey's public-company peer group, as reported in their proxy statements. The study reviews information on base salary, annual incentive, long-term incentive and other compensation and benefits programs as directed by the Committee and our Senior Vice President, Chief People Officer.

*Board of Director Compensation Market Competitiveness Study:* This study analyzes competitive pay practices for boards of directors, including prevalent pay types and competitive pay levels for annual retainers, meeting fees and long-term compensation.

The Committee uses this and other information provided by Towers Perrin, along with data supplied by our Senior Vice President, Chief People Officer, to reach an independent recommendation regarding compensation to be paid to Richard H. Lenny, our Chairman, President and Chief Executive Officer. The Committee's final recommendation is then given to the independent directors of our Board for review and final approval.

In establishing compensation levels, payouts and awards for executive officers other than Mr. Lenny, the Committee takes into consideration the recommendations of Towers Perrin, evaluations by Mr. Lenny and our Chief People Officer of each officer's individual performance and Company performance. The Committee determines director compensation primarily on the basis of Towers Perrin's Board of Director Compensation Market Competitiveness Study.

Please turn to page 33 for additional information regarding our executive compensation programs and page 18 for information regarding compensation of our directors.

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**Governance Committee**

3 meetings in 2006

Members: Jon A. Boscia (Chair)  
Bonnie G. Hill  
Alfred F. Kelly, Jr.  
Mackey J. McDonald  
Marie J. Toulantis

Independence: The Board has determined that all directors on this Committee are independent under the listing standards of the New York Stock Exchange and the Company's Corporate Governance Guidelines.

Responsibilities: Reviews and makes recommendations on the composition of the Board and its committees;  
Identifies, evaluates and recommends candidates for election to the Board consistent with the Board's membership qualifications;  
Reviews and makes recommendations to the full Board on corporate governance matters, including the Board's Corporate Governance Guidelines;  
Administers the Company's Related Person Transaction Policy as directed by the Board; and  
Evaluates the performance of the full Board, its independent committees and each director.

Charter: A current copy of the charter of the Governance Committee may be viewed on the Company's website at [www.hersheys.com](http://www.hersheys.com) in the Investor Relations section.

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**Executive Committee**

0 meetings in 2006

Members: Richard H. Lenny (Chair)  
Jon A. Boscia  
Robert H. Campbell  
Gary P. Coughlan

Responsibilities: Manages the business and affairs of the Company, to the extent permitted by the Delaware General Corporation Law, when the Board is not in session. A subcommittee consisting of the independent directors on this Committee reviews and approves in advance any transaction not in the ordinary course of business between the Company and Hershey Trust Company, Hershey Entertainment & Resorts Company and/or Milton Hershey School, or any subsidiary, division or affiliate of any of the foregoing, unless the Board specifies a different approval process.

Charter: A current copy of the charter of the Executive Committee may be viewed on the Company's website at [www.hersheys.com](http://www.hersheys.com) in the Investor Relations section.



**How are nominees for the Board selected?**

The Governance Committee is responsible for identifying and recommending to the Board candidates for Board membership. The Governance Committee considers recommendations from directors, stockholders or other sources. Occasionally, the Governance Committee engages a paid third-party consultant to assist it in identifying and evaluating director candidates. The Governance Committee has sole authority under its charter to retain, compensate and terminate these consultants. The Governance Committee's general policy is to have all members of the Committee interview prospective candidates before their nominations are approved by the Committee and recommended to the full Board.

Our Corporate Governance Guidelines describe the qualifications and skills sought by the Board of any Board nominee. Generally, the Board seeks individuals with skills and backgrounds that will complement those of other directors and maximize the diversity and effectiveness of the Board as a whole.

In reviewing the qualifications of prospective directors, the Board considers factors it deems appropriate, including the candidate's:

integrity;

judgment;

skill;

diversity;

ability to express informed, useful and constructive views;

experience with businesses and other organizations of comparable size;

ability to commit the time necessary to learn our business and to prepare for and participate actively in committee meetings and in Board meetings;

experience and how it relates to the experience of the other Board members; and

overall desirability as an addition to the Board and its committees.

The Board seeks individuals having knowledge and experience in such disciplines as finance, international business, marketing, information technology, human resources and consumer products.

The Governance Committee does not distinguish between nominees recommended by stockholders and other nominees. However, stockholders desiring to nominate a director candidate must comply with certain procedures. We explained the procedures for nominating a director candidate at this year's annual meeting in our 2006 proxy statement. If you are a stockholder and desire to nominate a director candidate at next year's annual meeting, you must comply with the procedures for nomination set forth in the section entitled "Information About the 2008 Annual Meeting," beginning on page 75.

**DIRECTOR COMPENSATION**

**How are directors compensated?**

The Company maintains a Directors Compensation Plan designed to:

attract and retain highly qualified non-employee directors; and

align the interests of non-employee directors with those of our stockholders by paying a portion of their compensation in units representing shares of our Common Stock.

Directors who are employees of the Company receive no additional compensation for their service on our Board. Mr. Lenny is the only employee of the Company who also serves as a director and thus receives no additional compensation for his Board service.

The Board targets non-employee director compensation at the 50<sup>th</sup> percentile of compensation paid to directors at a peer group of 15 food, beverage and consumer packaged goods companies representing our most direct competitors for executive talent. Information about this peer group is included in the Compensation Discussion and Analysis beginning on page 33. Each year, with the assistance of the Compensation and Executive Organization Committee and Towers Perrin, the Board reviews the compensation paid to directors at these companies and establishes its compensation in accordance with its target.

In 2006, our non-employee directors were compensated in accordance with the following schedule:

Annual retainer	\$ 65,000
Annual restricted stock unit grant	\$ 100,000
Annual cash fee for committee chairs	\$ 5,000

(except Audit Committee Chair)

Annual cash fee for Audit Committee Chair	\$ 10,000
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*Annual Retainer and Committee Chair Fees*

Non-employee directors may elect to receive all or a portion of the annual retainer in cash or Common Stock. Non-employee directors also may elect to defer receipt of the retainer or committee chair fees until the date their membership on the Board ends. Committee chair fees that are not deferred are paid only in cash. Non-employee directors desiring to defer some or all of the retainer or committee chair fees may invest the deferred amounts in two ways:

In a cash account that values the performance of the investment based upon the performance of one or more third-party investment funds, as selected by the director. These investment funds were selected from the mutual funds or other investment options available to all employees under our 401(k) Plan. Amounts invested in the cash account are paid only in cash.

In a deferred common stock unit account that we value according to the performance of our Common Stock, including reinvested dividends. Amounts invested in the deferred common stock unit account are paid in shares of Common Stock.

Following a review of competitive data, the Board elected in December 2006 to increase to \$10,000 the annual cash fee for the chairs of the Compensation and Executive Organization Committee and Governance Committee, effective January 1, 2007. The annual cash fee for the chair of the Audit Committee will remain at \$10,000 during 2007.

*Restricted Stock Units*

Restricted stock units, or RSUs, were granted quarterly to each of the directors on the first day of January, April, July and October 2006. The number of RSUs granted in each quarter was determined by dividing \$25,000 by the average closing price of a share of our Common Stock on the New York Stock Exchange on the last three trading days preceding the grant date. To align the interests of our directors with the long-term interests of our stockholders, RSUs granted to directors will not vest or be distributed until the director's membership on the Board ends. If the director's membership ends for a reason other than retirement, disability or death, the Board must decide whether the RSUs have vested. Termination of a director's membership on the Board following a change in control is considered a retirement for this purpose. Once vested, RSUs are paid to directors only in shares of Common Stock. Dividends are credited at regular rates on the RSUs during the restriction period, and upon vesting of the RSUs, are paid in shares of Common Stock.

*Other Compensation, Reimbursements and Programs*

The Board occasionally establishes committees of limited duration for special purposes. The Compensation and Executive Organization Committee of the Board will consider paying additional compensation to non-employee directors who serve on special committees, generally \$1,250 per meeting, if the special committee holds six or more meetings, each lasting one hour or more. No director received compensati