

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**(Mark one)**

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

**OR**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**COMMISSION FILE NUMBER 1-16483**



**Kraft Foods Inc.**

(Exact name of registrant as specified in its charter)

**Virginia**

(State or other jurisdiction of incorporation or organization)

**52-2284372**

(I.R.S. Employer Identification No.)

**Three Lakes Drive, Northfield, Illinois**

(Address of principal executive offices)

**60093**

(Zip Code)

Registrant's telephone number, including area code: **847-646-2000**

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, no par value	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:** None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

**Note:** Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):  
 Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
 (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the shares of Class A Common Stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on June 30, 2009, was \$37 billion. At January 29, 2010, there were 1,479,371,197 shares of the registrant's Class A Common Stock outstanding.

#### **Documents Incorporated by Reference**

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its annual meeting of shareholders to be held on May 18, 2010 are incorporated by reference into Part III hereof.

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### **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Kraft Foods Inc.:

In our opinion, the consolidated balance sheets and the related consolidated statements of earnings, of equity and of cash flows appearing in Item 8 present fairly, in all material respects, the financial position of Kraft Foods Inc. and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions and the timing of its annual goodwill and indefinite-lived intangible assets impairment tests in 2007, the manner in which it accounts for defined benefit pension and other postretirement plans in 2008, and the manner in which it accounts for inventories and noncontrolling interests in 2009.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with

authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois  
February 16, 2010

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### **Note 10. Stock Plans:**

At our 2009 annual meeting, our shareholders approved the Kraft Foods Inc. Amended and Restated 2005 Performance Incentive Plan (the "2005 Plan"). The 2005 Plan includes, among other provisions, a limit on the number of shares that may be granted under the plan, vesting restrictions and a prohibition on stock option repricing. Under the 2005 Plan, we may grant to eligible employees awards of stock options, stock appreciation rights, restricted stock, restricted and deferred stock units, and other awards based on our Common Stock, as well as performance-based annual and long-term incentive awards. We are authorized to issue a maximum of 168.0 million shares of our Common Stock under the 2005 Plan. As of the effective date of the amendment, there were 92.1 million shares available to be granted under the 2005 Plan, of which no more than 27.5 million shares may be awarded as restricted or deferred stock. In addition, under the Kraft Foods 2006 Stock Compensation Plan for Non-Employee Directors (the "2006 Directors Plan"), we may grant up to 500,000 shares of Common Stock to members of the Board of Directors who are not our full-time employees. At December 31, 2009, there were

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93,740,465 shares available to be granted under the 2005 Plan and 372,097 shares available to be granted under the 2006 Directors Plan. Restricted or deferred shares available for grant under the 2005 Plan at December 31, 2009, were 27,984,072.

In 2008, we changed our annual and long-term incentive compensation programs to further align them with shareholder returns. Under the annual equity program, we now grant equity in the form of both restricted or deferred stock and stock options. The restricted or deferred stock continues to vest 100% after three years, and the stock options vest in three annual installments beginning on the first anniversary of the grant date. Additionally, we changed our long-term incentive plan from a cash-based program to a share-based program. These shares vest based on varying performance, market and service conditions.

All stock awards are issued to employees from treasury stock. We have no specific policy to repurchase Common Stock to mitigate the dilutive impact of options; however, we have historically made adequate discretionary purchases, based on cash availability, market trends and other factors, to satisfy stock option exercise activity.

#### *Stock Options:*

Stock options are granted at an exercise price equal to the market value of the underlying stock on the grant date, generally become exercisable in three annual installments beginning on the first anniversary of the grant date and have a maximum term of ten years. Prior to 2008, we had not granted stock options through a broad-based program since 2002.

We account for our employee stock options under the fair value method of accounting using a modified Black-Scholes methodology to measure stock option expense at the date of grant. The fair value of the stock options at the date of grant is amortized to expense over the vesting period. We recorded compensation expense related to stock options of \$31 million in 2009 and \$18 million in 2008. The deferred tax benefit recorded related to this compensation expense was \$11 million in 2009 and \$6 million in 2008. The unamortized compensation expense related to our stock options was \$48 million at December 31, 2009 and is expected to be recognized over a weighted-average period of two years. Our weighted-average Black-Scholes fair value assumptions were as follows:

	<u>Risk-Free Interest Rate</u>	<u>Expected Life</u>	<u>Expected Volatility</u>	<u>Expected Dividend Yield</u>	<u>Fair Value at Grant Date</u>
2009	2.46%	6 years	21.36%	4.90%	\$ 2.68
2008	3.08%	6 years	21.04%	3.66%	\$ 4.49

The risk-free interest rate represents the rate on zero-coupon U.S. government issues with a remaining term equal to the expected life of the options. The expected life is the period over which our employees are expected to hold their options. It is based on the simplified method from the SEC's safe harbor guidelines. Volatility reflects historical movements in our stock price for a period commensurate with the expected life of the options. Dividend yield is estimated over the expected life of the options based on our stated dividend policy.

Stock option activity for the year ended December 31, 2009 was:

	<u>Shares Subject to Option</u>	<u>Weighted- Average Exercise Price</u>	<u>Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Balance at January 1, 2009	38,485,559	\$ 24.74		
Options granted	16,310,380	23.64		
Options exercised	(5,891,471)	14.08		
Options cancelled	<u>(2,176,771)</u>	27.76		
Balance at December 31, 2009	<u>46,727,697</u>	25.56	6 years	\$ 149 million
Exercisable at December 31, 2009	<u>22,848,549</u>	25.41	2 years	\$ 91 million

In February 2009, as part of our annual equity program, we granted 16.3 million stock options to eligible employees at an exercise price of \$23.64.

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In February 2008, as part of our annual equity program, we granted 13.5 million stock options to eligible employees at an exercise price of \$29.49. We also granted 0.1 million off-cycle stock options during 2008 at an exercise price of \$30.78.

On May 3, 2007, our Board of Directors approved a stock option grant to our CEO to recognize her election as our Chairman. She received 300,000 stock options, which vest under varying market and service conditions and expire ten years after the grant date. The grant had an insignificant impact on earnings in 2007.

The total intrinsic value of options exercised was \$72 million in 2009, \$76 million in 2008 and \$90 million in 2007. Cash received from options exercised was \$79 million in 2009, \$80 million in 2008 and \$124 million in 2007. The actual tax benefit realized for the tax deductions from the option exercises totaled \$52 million in 2009, \$44 million in 2008 and \$35 million in 2007.

*Restricted and Deferred Stock:*

We may grant shares of restricted or deferred stock to eligible employees, giving them in most instances all of the rights of shareholders, except that they may not sell, assign, pledge or otherwise encumber the shares. Shares of restricted and deferred stock are subject to forfeiture if certain employment conditions are not met. Restricted and deferred stock generally vest on the third anniversary of the grant date.

Shares granted in connection with our long-term incentive plan vest based on varying performance, market and service conditions. The unvested shares have no voting rights and do not pay dividends.

The fair value of the restricted and deferred shares at the date of grant is amortized to earnings over the restriction period. We recorded compensation expense related to restricted and deferred stock of \$133 million in 2009, \$160 million in 2008 and \$136 million in 2007. The deferred tax benefit recorded related to this compensation expense was \$44 million in 2009, \$53 million in 2008 and \$47 million in 2007. The unamortized compensation expense related to our restricted and deferred stock was \$149 million at December 31, 2009 and is expected to be recognized over a weighted-average period of two years.

Our restricted and deferred stock activity for the year ended December 31, 2009 was:

	<u>Number of Shares</u>	<u>Weighted-Average Grant Date Fair Value Per Share</u>
Balance at January 1, 2009	15,250,805	\$ 31.46
Granted	5,778,201	24.68
Vested	(6,071,661)	30.12
Forfeited	<u>(1,102,392)</u>	30.57
Balance at December 31, 2009	<u>13,854,953</u>	29.30

In January 2009, we granted 1.5 million shares of stock in connection with our long-term incentive plan, and the market value per share was \$27.00 on the date of grant. In February 2009, as part of our annual equity program, we issued 4.1 million shares of restricted and deferred stock to eligible employees, and the market value per restricted or deferred share was \$23.64 on the date of grant. We also issued 0.2 million off-cycle shares of restricted and deferred stock during 2009, and the weighted-average market value per restricted or deferred share was \$25.55 on the date of grant.

In January 2008, we granted 1.4 million shares of stock in connection with our long-term incentive plan, and the market value per share was \$32.26 on the date of grant. In February 2008, as part of our annual equity program, we issued 3.4 million shares of restricted and deferred stock to eligible employees, and the market value per restricted or deferred share was \$29.49 on the date of grant. We also issued 0.2 million off-cycle shares of restricted and deferred stock during 2008, and the weighted-average market value per restricted or deferred share was \$30.38 on the date of grant. The total number of restricted and deferred shares issued in 2008 was 5.0 million.

In January 2007, we issued 5.2 million shares of restricted and deferred stock to eligible employees as part of our annual equity program, and the market value per restricted or deferred share was \$34.655 on the date of grant.

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Additionally, we issued 1.0 million off-cycle shares of restricted and deferred stock during 2007, and the weighted-average market value per restricted or deferred share was \$34.085 on the date of grant. The total number of restricted and deferred shares issued in 2007 was 9.2 million, including those issued as a result of our spin-off from Altria (discussed below).

The weighted-average grant date fair value of restricted and deferred stock granted was \$143 million, or \$24.68 per restricted or deferred share, in 2009, \$151 million, or \$30.38 per restricted or deferred share, in 2008 and \$310 million, or \$33.63 per restricted or deferred share, in 2007. The vesting date fair value of restricted and deferred stock was \$153 million in 2009, \$196 million in 2008, and \$153 million in 2007.

*Bifurcation of Stock Awards Upon Spin-Off from Altria:*

Effective on the date of our spin-off, Altria stock awards were modified through the issuance of Kraft Foods stock awards, and accordingly, the Altria stock awards were split into two instruments. Holders of Altria stock options received: 1) a new Kraft Foods option to acquire shares of Kraft Foods Common Stock; and 2) an adjusted Altria stock option for the same number of shares of Altria common stock previously held, but with a proportionally reduced exercise price. For each employee stock option outstanding, the aggregate intrinsic value immediately after our spin-off from Altria was not greater than the aggregate intrinsic value immediately prior to it. Holders of Altria restricted stock or stock rights awarded before January 31, 2007 retained their existing awards and received restricted stock or stock rights in Kraft Foods Common Stock. Recipients of Altria restricted stock or stock rights awarded on or after January 31, 2007 did not receive Kraft Foods restricted stock or stock rights because Altria had announced the spin-off at that time. We reimbursed Altria \$179 million for net settlement of the employee stock awards. We determined the fair value of the stock options using the Black-Scholes option valuation model, and adjusted the fair value of the restricted stock and stock rights by the value of projected forfeitures.

Based upon the number of Altria stock awards outstanding upon our spin-off, we granted stock options for 24.2 million shares of Kraft Foods Common Stock at a weighted-average price of \$15.75. The options expire between 2007 and 2012. In addition, we issued 3.0 million shares of restricted stock and stock rights. The market value per restricted share or right was \$31.66 on the date of grant. Restrictions on the majority of these restricted shares and stock rights lapsed in the first quarter of either 2008 or 2009.