KRAFT FOODS INC
Form 10-Q
November 05, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from to
Commission file number 1-16483

Kraft Foods Inc.

(Exact name of registrant as specified in its charter)

Virginia	**52-2284372**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Three Lakes Drive,	
Northfield, Illinois	**60093**
(Address of principal executive offices)	(Zip Code)

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	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 Exchange Act). Yes ¨ No x

At October 29, 2010, there were 1,746,773,569 shares of the registrant s common stock outstanding.

Kraft Foods Inc.

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In this report, Kraft Foods, we, us and our refers to Kraft Foods Inc. and subsidiaries, and Common Stock refers to Kraft Foods Class A co stock.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Kraft Foods Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(in millions of dollars, except per share data)

(Unaudited)

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Net revenues	$ 11,863	$ 9,397	$ 35,434	$ 28,157
Cost of sales	7,542	6,019	22,330	18,167
Gross profit	4,321	3,378	13,104	9,990
Selling, general and administrative expenses	2,758	2,033	8,541	6,014
Asset impairment and exit costs	(9)		(9)	(26)
Losses on divestitures, net				17
Amortization of intangibles	53	6	146	15
Operating income	1,519	1,339	4,426	3,970
Interest and other expenses, net	433	323	1,496	915
Earnings from continuing operations before income taxes	1,086	1,016	2,930	3,055
Provision for income taxes	326	242	982	897
Earnings from continuing operations	760	774	1,948	2,158
Earnings from discontinued operations, net of income taxes (Note 2)		52	1,644	159
Net earnings	760	826	3,592	2,317
Noncontrolling interest	6	2	18	6
Net earnings attributable to Kraft Foods	$ 754	$ 824	$ 3,574	$ 2,311
Per share data:				
Basic earnings per share attributable to Kraft Foods:				
Continuing operations	$ 0.43	$ 0.52	$ 1.13	$ 1.45
Discontinued operations		0.04	0.97	0.11
Net earnings attributable to Kraft Foods	$ 0.43	$ 0.56	$ 2.10	$ 1.56
Diluted earnings per share attributable to Kraft Foods:				

Continuing operations	$	0.43	$	0.52	$	1.13	$	1.45
Discontinued operations				0.03		0.96		0.11
Net earnings attributable to Kraft Foods	$	0.43	$	0.55	$	2.09	$	1.56
Dividends declared	$	0.29	$	0.29	$	0.87	$	0.87

See notes to condensed consolidated financial statements.

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Kraft Foods Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in millions of dollars)

(Unaudited)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 2,288	$ 2,101
Receivables (less allowances of $183 in 2010 and $121 in 2009)	6,013	5,197
Inventories, net	5,735	3,775
Deferred income taxes	901	730
Other current assets	887	651
Total current assets	15,824	12,454
Property, plant and equipment, net	13,710	10,693
Goodwill	36,764	28,764
Intangible assets, net	25,476	13,429
Prepaid pension assets	195	115
Other assets	1,651	1,259
TOTAL ASSETS	$ 93,620	$ 66,714
LIABILITIES		
Short-term borrowings	$ 331	$ 453
Current portion of long-term debt	133	513
Accounts payable	5,130	3,766
Accrued marketing	1,947	2,181
Accrued employment costs	1,197	1,175
Other current liabilities	4,888	3,403
Total current liabilities	13,626	11,491
Long-term debt	29,571	18,024
Deferred income taxes	6,992	4,508
Accrued pension costs	2,424	1,765
Accrued postretirement health care costs	2,910	2,816
Other liabilities	3,115	2,138
TOTAL LIABILITIES	58,638	40,742
Contingencies (Note 13)		
EQUITY		
Common Stock, no par value (1,996,537,778 shares issued in 2010 and 1,735,000,000 shares issued in 2009)		
Additional paid-in capital	31,181	23,611
Retained earnings	16,621	14,636
Accumulated other comprehensive losses	(4,720)	(3,955)
Treasury stock, at cost	(8,202)	(8,416)

Total Kraft Foods Shareholders Equity		34,880		25,876
Noncontrolling interest		102		96
TOTAL EQUITY		34,982		25,972
TOTAL LIABILITIES AND EQUITY	$	93,620	$	66,714

See notes to condensed consolidated financial statements.

Kraft Foods Inc. and Subsidiaries

Condensed Consolidated Statements of Equity

(in millions of dollars, except per share data)

(Unaudited)

	Kraft Foods Shareholders Equity						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Earnings / (Losses)	Treasury Stock	Noncontrolling Interest	Total Equity
Balances at January 1, 2009	$	$ 23,563	$ 13,440	$ (5,994)	$ (8,714)	$ 61	$ 22,356
Comprehensive earnings:							
Net earnings			3,021			7	3,028
Other comprehensive earnings, net of income taxes				2,039		34	2,073
Total comprehensive earnings *						41	5,101
Exercise of stock options and issuance of other stock awards		49	(110)		298		237
Cash dividends declared ($1.16 per share)			(1,715)				(1,715)
Dividends paid on noncontrolling interest and other activities		(1)				(6)	(7)
Balances at December 31, 2009	$	$ 23,611	$ 14,636	$ (3,955)	$ (8,416)	$ 96	$ 25,972
Comprehensive earnings / (losses):							
Net earnings			3,574			18	3,592
Other comprehensive losses, net of income taxes				(765)		(20)	(785)
Total comprehensive earnings / (losses) *						(2)	2,807
Exercise of stock options and issuance of other stock awards		102	(70)		214		246
Cash dividends declared ($0.87 per share)			(1,519)				(1,519)
Net impact of noncontrolling interests from Cadbury acquisition		38				33	71
Purchase from noncontrolling interest, dividends paid and other activities		(27)				(25)	(52)
Issuance of Common Stock		7,457					7,457
Balances at September 30, 2010	$	$ 31,181	$ 16,621	$ (4,720)	$ (8,202)	$ 102	$ 34,982

* Total comprehensive earnings / (losses) were $2,008 million for the quarter ended and $2,807 million for the nine months ended September 30, 2010, as compared to $1,197 million for the quarter ended and $3,981 million for the nine months ended September 30, 2009. Comprehensive earnings / (losses) attributable to Kraft Foods were $1,993 million for the quarter ended and $2,809 million for the nine months ended September 30, 2010, as compared to $1,192 million for the quarter ended and $3,950 million for the nine months ended September 30, 2009.

See notes to condensed consolidated financial statements.

Kraft Foods Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in millions of dollars)

(Unaudited)

	For the Nine Months Ended September 30, 2010	2009
CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES		
Net earnings	$ 3,592	$ 2,317
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	1,019	659
Stock-based compensation expense	132	123
Deferred income tax provision	127	127
Losses on divestitures, net		17
Gain on discontinued operations (Note 2)	(1,596)	
Asset impairment and exit costs, net of cash paid		9
Other non-cash expense, net	4	189
Change in assets and liabilities, excluding the effects of acquisitions and divestitures:		
Receivables, net	264	410
Inventories, net	(870)	(27)
Accounts payable	(181)	(351)
Other current assets	(44)	233
Other current liabilities	(1,383)	(363)
Change in pension and postretirement assets and liabilities, net	160	(74)
Net cash provided by operating activities	1,224	3,269
CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES		
Capital expenditures	(1,020)	(749)
Acquisitions, net of cash received	(9,843)	
Proceeds from divestitures	4,039	6
Other	13	43
Net cash used in investing activities	(6,811)	(700)
CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES		
Net (repayments) / issuance of short-term borrowings	(1,285)	461
Long-term debt proceeds	9,438	2
Long-term debt repaid	(512)	(215)
Dividends paid	(1,664)	(1,284)
Other	(89)	75
Net cash provided by / (used in) financing activities	5,888	(961)
Effect of exchange rate changes on cash and cash equivalents	(114)	144

Cash and cash equivalents:		
Increase	187	1,752
Balance at beginning of period	2,101	1,244
Balance at end of period	$ 2,288	$ 2,996

See notes to condensed consolidated financial statements.

Kraft Foods Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Summary of Significant Accounting Policies:

Basis of Presentation:

Our interim condensed consolidated financial statements are unaudited. We prepared the condensed consolidated financial statements following SEC rules for interim reporting. As permitted under those rules, we have condensed or omitted a number of footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America (U.S. GAAP). It is management s opinion that these financial statements include all normal and recurring adjustments necessary for a fair presentation of our financial position and operating results. Net revenues and net earnings for any interim period are not necessarily indicative of future or annual results.

You should read these statements in conjunction with our consolidated financial statements and related notes in our Form 10-K for the year ended December 31, 2009.

Principles of Consolidation:

The consolidated financial statements include Kraft Foods, as well as our wholly owned and majority owned subsidiaries. Our domestic operating subsidiaries report results as of the last Saturday of the quarter, and our international operating subsidiaries generally report results two weeks prior to the last Saturday of the quarter. The results of operations of the newly acquired Cadbury Limited (formerly, Cadbury plc) (Cadbury) are reported on the last day of the calendar month.

In the second quarter of 2010, we changed the consolidation date for certain European Biscuits operations, which are included within our Kraft Foods Europe segment, and certain operations in Asia Pacific, which are included within our Kraft Foods Developing Markets segment. Previously, these operations primarily reported period-end results one month prior to the end of the quarter and now report period-end results two weeks prior to the last Saturday of the quarter. We believe the change is preferable and will improve financial reporting by better matching the close dates of each subsidiary to our other international operating subsidiaries, which operate similarly. This change resulted in a favorable impact to net revenues of approximately $70 million during the second quarter of 2010 and had an insignificant impact on net earnings in that quarter and on the year. As the impacts to prior period results were not material to our financial results, we have not revised the prior period results for this change. Our domestic operating subsidiaries will continue to report period-end results as of the Saturday closest to the end of each period, and our international operating subsidiaries will continue to report period-end results two weeks prior to the Saturday closest to the end of each period.

Highly Inflationary Accounting:

In the fourth quarter of 2009, the Venezuelan economy was classified as highly inflationary under U.S. GAAP. Effective January 1, 2010, we are accounting for our Venezuelan subsidiaries under highly inflationary accounting rules, which principally means all transactions are recorded in U.S. dollars. Venezuela has three exchange rates: the official rate, the consumer staples rate and the secondary (or parallel) rate. We used both the official rate and the secondary rate to translate our Venezuelan operations into U.S. dollars, based on the nature of the operations of each individual subsidiary. Additionally, we previously carried cash that we had exchanged into U.S. dollars using the secondary market at that rate. Upon the change to highly inflationary accounting, we were then required to translate those U.S. dollars on hand using the official rate, which resulted in a charge of $34 million in the first quarter of 2010.

On January 8, 2010, the Venezuelan government devalued its currency. Accordingly, we were required to revalue our net assets in Venezuela. Through the first nine months of 2010, we recorded approximately $85 million of unfavorable foreign currency impacts relating to highly inflationary accounting in Venezuela (which included the one-time impact to translate cash of $34 million).

New Accounting Pronouncements:

In June 2009, new guidance was issued on the consolidation of variable interest entities. We adopted the guidance effective January 1, 2010. This guidance increases the likelihood of an enterprise being classified as a variable interest entity. The adoption of this guidance did not have a material impact on our financial results.

Note 2. Acquisitions and Divestitures:

Cadbury Acquisition:

On January 19, 2010, we announced the terms of our final offer for each outstanding ordinary share of Cadbury, including each ordinary share represented by an American Depositary Share (Cadbury ADS), and the Cadbury Board of Directors recommended that Cadbury shareholders accept the terms of the final offer. On February 2, 2010, all of the conditions to the offer were satisfied or validly waived, the initial offer period expired and a subsequent offer period immediately began. At that point, we had received acceptances of 71.73% of the outstanding Cadbury ordinary shares, including those represented by Cadbury ADSs (Cadbury Shares). As of June 1, 2010, we owned 100% of all outstanding Cadbury Shares. We believe the combination of Kraft Foods and Cadbury will create a global snacks powerhouse and an unrivaled portfolio of brands people love.

Under the terms of our final offer and the subsequent offer, we agreed to pay Cadbury shareholders 500 pence in cash and 0.1874 shares of Kraft Foods Common Stock per Cadbury ordinary share validly tendered and 2,000 pence in cash and 0.7496 shares of Kraft Foods Common Stock per Cadbury ADS validly tendered. This valued Cadbury at $18.5 billion, or approximately £11.6 billion (based on the average price of $28.36 for a share of Kraft Foods Common Stock on February 2, 2010 and an exchange rate of $1.595 per £1.00).

On February 2, 2010, we acquired 71.73% of Cadbury s Shares for $13.1 billion and the value attributed to noncontrolling interests was $5.4 billion. From February 2, 2010 through June 1, 2010, we acquired the remaining 28.27% of Cadbury s Shares for $5.4 billion. We had a $38 million gain on noncontrolling interest acquired and recorded it within additional paid in capital.

As part of our Cadbury acquisition, we expensed and incurred transaction related fees of $2 million for the three months, $217 million for the nine months ended September 30, 2010 and $11 million for the three and nine months ended September 30, 2009. We recorded these expenses within selling, general and administrative expenses. We also incurred acquisition financing fees of $96 million in the first quarter of 2010. We recorded these expenses within interest and other expense, net.

Cadbury contributed net revenues of $6,376 million and net earnings of $369 million from February 2, 2010 through September 30, 2010. The following unaudited pro forma summary presents Kraft Foods consolidated information as if Cadbury had been acquired on January 1, 2009. These amounts were calculated after conversion to U.S. GAAP, applying our accounting policies, and adjusting Cadbury s results to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment, and intangible assets had been applied from January 1, 2009, together with the consequential tax effects. These adjustments also reflect the additional interest expense incurred on the debt to finance the purchase, and the divestitures of certain Cadbury confectionery operations in Poland and Romania, as required by the EU Commission as a condition of our Cadbury acquisition.

	Pro forma for the Three Months Ended September 30, 2009	Pro forma for the Nine Months Ended September 30, 2010	
		2010	2009
	(in millions)		
Net revenues	$ 11,812	$ 35,997	$ 34,599
Net earnings attributable to Kraft Foods	725	3,420	2,097

Our February 2, 2010 Cadbury acquisition was valued at $18,547 million, or $17,500 million net of cash and cash equivalents. As part of that acquisition, we acquired the following assets and assumed the following liabilities (in millions):

Receivables [1]	$	1,331
Inventories		1,298
Other current assets		695
Property, plant and equipment		3,312
Goodwill [2]		9,174
Intangible assets [3]		12,769
Other assets		376
Short-term borrowings		(1,206)
Accounts payable		(1,689)
Other current liabilities [4]		(1,711)
Long-term debt		(2,436)
Deferred income taxes		(2,583)
Accrued pension costs		(816)
Other liabilities		(981)
Noncontrolling interest		(33)

(1) The gross amount due under the receivables we acquired is $1,402 million, of which $71 million is expected to be uncollectable.
(2) Goodwill will not be deductible for statutory tax purposes and is attributable to Cadbury s workforce and the significant synergies we expect from the acquisition.
(3) $10.2 billion of the intangible assets acquired are expected to be indefinite lived.
(4) Within other current liabilities, a reserve for exposures related to taxes of approximately $70 million was established within our Developing Markets segment. The cumulative exposure was approximately $140 million at September 30, 2010.

The above amounts represent the allocation of purchase price and are substantially complete. We expect to finalize the purchase price allocations during the fourth quarter of 2010.

Pizza Divestiture:

On March 1, 2010, we completed the sale of the assets of our North American frozen pizza business (Frozen Pizza) to Nestlé USA, Inc. (Nestlé) for $3.7 billion. Our Frozen Pizza business was a component of our U.S. Convenient Meals and Canada & North America Foodservice segments. The sale included the *DiGiorno*, *Tombstone* and *Jack s* brands in the U.S., the *Delissio* brand in Canada and the *California Pizza Kitchen* trademark license. It also included two Wisconsin manufacturing facilities (Medford and Little Chute) and the leases for the pizza depots and delivery trucks. Approximately 3,600 of our employees transferred with the business to Nestlé. Accordingly, the results of our Frozen Pizza business have been reflected as discontinued operations on the condensed consolidated statement of earnings, and prior period results have been revised in a consistent manner.

Pursuant to the Frozen Pizza business Transition Services Agreement, we agreed to provide certain sales, co-manufacturing, distribution, information technology, accounting and finance services to Nestlé for up to two years.

Summary results of operations for the Frozen Pizza business through September 30, 2010 were:

	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
		(in millions)	
Net revenues	$ 406	$ 335	$ 1,204
Earnings before income taxes	80	73	248
Provision for income taxes	(28)	(25)	(89)
Gain on discontinued operations, net of income taxes		1,596	
Earnings and gain from discontinued operations, net of income taxes	$ 52	$ 1,644	$ 159

Earnings before income taxes as presented exclude associated allocated overheads of $25 million for the nine months ended September 30, 2010, $28 million for the three months ended September 30, 2009 and $81 million for the nine months ended September 30, 2009.

The 2010 gain on discontinued operations from the sale of the Frozen Pizza business included tax expense of $1.2 billion.

The following assets of the Frozen Pizza business were included in the Frozen Pizza divestiture (in millions):

Inventories, net	$ 102
Property, plant and equipment, net	317
Goodwill	475
Distributed assets of the Frozen Pizza business	$ 894

Other Divestitures:
The EU Commission required, as a condition of our Cadbury acquisition, that we divest certain Cadbury confectionery operations in Poland and Romania. In the third quarter of 2010, we completed the sale of the assets of the confectionery operations in Poland and Romania. The total proceeds from the divestitures were $342 million and the impacts of these divestitures were reflected as adjustments to the purchase price allocations.

Note 3. Inventories:

Inventories at September 30, 2010 and December 31, 2009 were:

	September 30, 2010	December 31, 2009
	(in millions)	
Raw materials	$ 1,861	$ 1,410
Finished product	3,874	2,365
Inventories, net	$ 5,735	$ 3,775

Note 4. Property, Plant and Equipment:

Property, plant and equipment at September 30, 2010 and December 31, 2009 were:

	September 30, 2010	December 31, 2009
	(in millions)	
Land and land improvements	$ 755	$ 492
Buildings and building equipment	4,690	4,231
Machinery and equipment	15,811	13,872
Construction in progress	1,388	828
	22,644	19,423
Accumulated depreciation	(8,934)	(8,730)
Property, plant and equipment, net	$ 13,710	$ 10,693

Note 5. Goodwill and Intangible Assets:

Goodwill by reportable segment at September 30, 2010 and December 31, 2009 was:

	September 30, 2010	December 31, 2009
	(in millions)	
Kraft Foods North America:		
U.S. Beverages	$ 1,290	$ 1,290
U.S. Cheese	3,000	3,000
U.S. Convenient Meals	985	1,460
U.S. Grocery	3,046	3,046
U.S. Snacks	9,056	6,948
Canada & N.A. Foodservice	3,302	2,340
Kraft Foods Europe	8,708	6,756
Kraft Foods Developing Markets	7,377	3,924
Total goodwill	$ 36,764	$ 28,764

Intangible assets at September 30, 2010 and December 31, 2009 were:

	September 30, 2010	December 31, 2009
	(in millions)	
Non-amortizable intangible assets	$ 22,873	$ 13,262
Amortizable intangible assets	2,860	278
	25,733	13,540
Accumulated amortization	(257)	(111)

Intangible assets, net	$ 25,476	$ 13,429

Non-amortizable intangible assets consist substantially of brand names purchased through our acquisitions of Nabisco Holdings Corp., the Spanish and Portuguese operations of United Biscuits, the global *LU* biscuit business of Groupe Danone S.A. and Cadbury. Amortizable intangible assets consist primarily of trademark licenses, customer-related intangibles, process technology and non-compete agreements. At September 30, 2010, the weighted-average life of our amortizable intangible assets was 13.0 years.

The movements in goodwill and intangible assets were:

	Goodwill	Intangible Assets, at Cost
	(in millions)	
Balance at January 1, 2010	$ 28,764	$ 13,540
Changes due to:		
Foreign currency	(699)	(538)
Acquisitions	9,174	12,769
Divestitures	(475)	(38)
Balance at September 30, 2010	$ 36,764	$ 25,733

Changes to goodwill and intangible assets during the nine months ended September 30, 2010 were:

Acquisitions We increased goodwill by $9,174 million and intangible assets by $12,769 million related to allocations of purchase price for our Cadbury acquisition, including the third quarter impacts of our refinements to preliminary allocations, which are substantially complete; however, these allocations are subject to revision upon their finalization in the fourth quarter of 2010. We recorded $2,108 million of the acquired goodwill in our U.S. Snacks segment, $903 million in our Canada & N.A. Foodservice segment, $2,541 million in our Kraft Foods Europe segment and $3,622 million in our Kraft Foods Developing Markets segment.

Divestitures We reduced goodwill by $475 million due to our Frozen Pizza business divestiture.

Amortization expense was $53 million for the three months and $146 million for the nine months ended September 30, 2010. We currently estimate amortization expense for each of the next five years to be approximately $210 million, including the estimated impact of our Cadbury acquisition. Our estimated amortization is subject to revision when appraisals are finalized for our Cadbury acquisition.

Note 6. Restructuring Costs:

Integration Program:

We believe our combination with Cadbury has the potential for meaningful revenue synergies over time from investments in distribution, marketing and product development. In order to achieve these synergies and cost savings, we expect to incur total integration charges of approximately $1.5 billion in the first three years following the acquisition to combine and integrate the two businesses (the Integration Program).

Integration Program costs include the costs associated with combining our operations with Cadbury s and are separate from the costs related to the acquisition. We incurred charges under the Integration Program of $92 million for the three months and $284 million for the nine months ended September 30, 2010. We recorded these charges in operations, primarily as a part of selling, general and administrative expenses within our Kraft Foods Europe and Kraft Foods Developing Markets segments, as well as general corporate expenses.

During the second quarter of 2010, we evaluated Cadbury s Vision into Action (VIA) restructuring program and began managing it within our overall Integration Program. Cadbury initiated the VIA restructuring program in 2007 and planned to run it through 2011. Accordingly, we acquired an accrual of $248 million relating to charges taken in previous periods. In evaluating their program as part of our corporate strategies and our integration plans, we included the remaining charges within our overall Integration Program. As we move forward on a combined company basis, we do not intend to manage these programs separately.

Liability activity for Integration Program in the first nine months of 2010 was (in millions):

Liability assumed upon acquisition	$ 248
Charges	284
Cash spent	(286)
Write offs	(8)
Currency / other	(9)
Liability balance, September 30, 2010	$ 229

Cost Savings Initiatives:

Cost savings initiatives generally include exit, disposal and other project savings costs. We incurred charges associated with our cost savings initiatives of $17 million for the three months and $93 million for the nine months ended September 30, 2010. We recorded these charges in operations, primarily within selling, general and administrative expenses within our Kraft Foods Europe and Canada & N.A. Foodservice segments, as well as general corporate expenses. These charges primarily included other project savings costs associated with the Kraft Foods Europe Reorganization. Even though other project savings costs were directly attributable to exit and disposal costs, they did not qualify for special accounting treatment as exit or disposal activities.

2004 2008 Restructuring Program:

In 2008, we completed our five-year restructuring program (the Restructuring Program). The Restructuring Program s objectives were to leverage our global scale, realign and lower our cost structure, and optimize capacity. As part of the Restructuring Program, we:

- incurred $3.0 billion in pre-tax charges reflecting asset disposals, severance and implementation costs;
- announced the closure of 35 facilities and the elimination of approximately 18,600 positions; and
- will use cash to pay for $2.0 billion of the $3.0 billion in charges.

Since the inception of the Restructuring Program, we have paid cash for $1.7 billion of the $2.0 billion in expected cash payments, including $60 million paid in the first nine months of 2010.

Restructuring liability activity for the nine months ended September 30, 2010 was (in millions):

Liability balance, January 1, 2010	$ 270
Reversal of charges	(9)
Cash spent	(60)
Currency	(24)
Liability balance, September 30, 2010	$ 177

Our 2010 activity was related to cash outflows on prior year Restructuring Program charges and reversals relating to severance benefits and other charges. Our prior year charges to the liability included severance benefits received by terminated employees, other costs related primarily to the renegotiation of supplier contract costs, workforce reductions associated with facility closings and the termination of leasing agreements.

Note 7. Debt:

Short-Term Borrowings:

At September 30, 2010 and December 31, 2009, our short-term borrowings and related weighted-average interest rates consisted of:

	September 30, 2010		December 31, 2009	
	Amount Outstanding (in millions)	Weighted-Average Rate	Amount Outstanding (in millions)	Weighted-Average Rate
Commercial paper	$		$ 262	0.5%
Bank loans	331	6.4%	191	10.5%
Total short-term borrowings	$ 331		$ 453	

The fair values of our short-term borrowings at September 30, 2010 and December 31, 2009, based upon current market interest rates, approximate the amounts disclosed above.

Borrowing Arrangements:

We maintain a revolving credit facility that we have historically used for general corporate purposes, including for working capital purposes, and to support our commercial paper issuances. Our $4.5 billion three-year senior unsecured revolving credit facility expires in November 2012. No amounts have been drawn on the facility.

The revolving credit facility agreement includes a covenant that we maintain a minimum total shareholders equity, excluding accumulated other comprehensive earnings / (losses), of at least $28.6 billion. This threshold was increased by $5.6 billion to $28.6 billion due to the equity we issued as part of our Cadbury acquisition. At September 30, 2010, our total shareholders equity, excluding accumulated other comprehensive earnings / (losses), was $39.6 billion. We expect to continue to meet this covenant. The revolving credit facility agreement also contains customary representations, covenants and events of default. However, there are no other financial covenants, credit rating triggers or provisions that could require us to post collateral as security.

In addition to the above, some of our international subsidiaries maintain primarily uncommitted credit lines to meet short-term working capital needs. Collectively, these credit lines amounted to $2.5 billion at September 30, 2010. Borrowings on these lines amounted to $331 million at September 30, 2010 and $191 million at December 31, 2009.

Cadbury maintained a three-year, £450 million senior unsecured revolving credit facility that we terminated effective June 30, 2010.

As part of our Cadbury acquisition, on November 9, 2009, we entered into an agreement for a 364-day senior unsecured bridge facility (the Cadbury Bridge Facility). During the first quarter of 2010, we borrowed £807 million under the Cadbury Bridge Facility, and later repaid it ($1,205 million at the time of repayment) with proceeds from the divestiture of our Frozen Pizza business. Upon repayment, the Cadbury Bridge Facility was terminated.

Long-Term Debt:

On February 8, 2010, we issued $9.5 billion of senior unsecured notes at a weighted-average effective rate of 5.364% and used the net proceeds ($9,379 million) to finance the Cadbury acquisition and for general corporate purposes. The general terms of the $9.5 billion notes are:

$1.00 billion total principal notes due May 8, 2013 at a fixed, annual interest rate of 2.625%. Interest is payable semiannually beginning November 8, 2010.

$1.75 billion total principal notes due February 9, 2016 at a fixed, annual interest rate of 4.125%. Interest is payable semiannually beginning August 9, 2010.

$3.75 billion total principal notes due February 10, 2020 at a fixed, annual interest rate of 5.375%. Interest is payable semiannually beginning August 10, 2010.

$3.00 billion total principal notes due February 9, 2040 at a fixed, annual interest rate of 6.500%. Interest is payable semiannually beginning August 9, 2010.

In addition, these notes include covenants that restrict our ability to incur debt secured by liens above a certain threshold. We also must offer to purchase these notes at a price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest to the date of repurchase, if both of the following occur:

(i) a change of control triggering event, and
(ii) a downgrade of these notes below an investment grade rating by each of Moody s Investors Service, Inc., Standard & Poor s Ratings Services and Fitch, Inc. within a specified period.

The fair value of the long-term debt we acquired as part of our Cadbury acquisition was $2,436 million at February 2, 2010. The acquired debt has the following terms:

- £77 million (approximately $121 million) total principal notes due December 10, 2010 at a fixed, annual interest rate of 4.875%.
- C$150 million (approximately $146 million) Canadian bank loan agreement expiring August 30, 2012 at a variable interest rate. The interest rate at September 30, 2010 was 1.153%.
- $1.00 billion total principal notes due October 1, 2013 at a fixed, annual interest rate of 5.125%.
- £300 million (approximately $471 million) total principal notes due December 11, 2014 at a fixed, annual interest rate of 5.375%.
- £350 million (approximately $550 million) total principal notes due July 18, 2018 at a fixed, annual interest rate of 7.250%.

We expect to continue to comply with our long-term debt covenants.

At September 30, 2010 and December 31, 2009, our long-term debt consisted of (interest rates were as of September 30, 2010):

	September 30, 2010	December 31, 2009
	(in millions)	
Notes, 2.625% to 7.55% (average effective rate 5.86%), due through 2040	$ 24,377	$ 14,395
Euro notes, 5.75% to 6.25% (average effective rate 5.98%), due through 2015	3,879	4,072
Sterling notes, 4.88% to 7.25% (average effective rate 4.59%), due through 2018	1,226	
Other foreign currency obligations	165	5
Capital leases and other	57	65
Total	29,704	18,537
Less current portion of long-term debt	(133)	(513)
Long-term debt	$ 29,571	$ 18,024

Aggregate maturities of our long-term debt for the years ended September 30 were (in millions):

2011	$ 133
2012	6,395
2013	1,760
2014	2,307
2015	2,035
Thereafter	17,071

On August 11, 2010, we repaid $500 million of our long-term debt. This repayment was primarily financed from cash from operations.

Fair Value:

The aggregate fair value of our total debt, based on quoted prices in active markets for identical liabilities, at September 30, 2010, was $33,731 million as compared with the carrying value of $30,035 million. The aggregate fair value of our total debt, based on quoted prices in active markets for identical liabilities, at December 31, 2009, was $20,222 million as compared with the carrying value of $18,990 million.

Interest and Other Expense:

Interest and other expense was:

	For the Three Months Ended September 30, 2010	2009	For the Nine Months Ended September 30, 2010	2009
		(in millions)		
Interest and other expense, net:				
Interest expense, debt	$ 433	$ 322	$ 1,255	$ 936
Acquisition-related financing fees			251	
Other (income) / expense, net		1	(10)	(21)
Total interest and other expense, net	$ 433	$ 323	$ 1,496	$ 915

Acquisition-related financing fees include hedging and foreign currency impacts associated with the Cadbury acquisition and other fees associated with the Cadbury Bridge Facility.

Note 8. Capital Stock:

Our articles of incorporation authorize 3.0 billion shares of Class A common stock, 2.0 billion shares of Class B common stock and 500 million shares of preferred stock. There were no Class B common shares or preferred shares issued and outstanding at September 30, 2010. Shares of Class A common stock issued, repurchased and outstanding were:

	Shares Issued	Shares Repurchased	Shares Outstanding
Balance at January 1, 2010	1,735,000,000	(257,115,097)	1,477,884,903
Shares issued	261,537,778		261,537,778
Exercise of stock options and issuance of other stock awards		6,337,532	6,337,532
Balance at September 30, 2010	1,996,537,778	(250,777,565)	1,745,760,213

In the first nine months of 2010, we issued 262 million additional shares of our Common Stock as part of the Cadbury acquisition. The issued stock had a total fair value of $7,457 million based on the average of the high and low market prices on the dates of issuance.

Note 9. Accumulated Other Comprehensive Earnings / (Losses):

The components of accumulated other comprehensive earnings / (losses) were:

	Currency Translation Adjustments	Pension and Other Benefits	Derivatives Accounted for as Hedges	Total
		(in millions)		
Balances at December 31, 2009	$ (506)	$ (3,550)	$ 101	$ (3,955)
Other comprehensive earnings / (losses), net of income taxes:				
Currency translation adjustments	(691)	24		(667)
Amortization of experience losses and prior service costs		148		148
Settlement losses		69		69
Net actuarial loss arising during period		(54)		(54)
Change in fair value of cash flow hedges			(261)	(261)
Total other comprehensive losses				(765)
Balances at September 30, 2010	$ (1,197)	$ (3,363)	$ (160)	$ (4,720)

Note 10. Stock Plans:

Restricted and Deferred Stock:

In January 2010, we granted 1.7 million shares of stock in connection with our long-term incentive plan, and the market value per share was $27.33 on the date of grant. During the first nine months of 2010, we granted an additional 0.6 million shares of stock in connection with our long-term incentive plan and market value per share was $29.15 on the date of grant. In February 2010, as part of our annual equity program, we issued 2.5 million shares of restricted and deferred stock to eligible employees, and the market value per restricted or deferred share was $29.15 on the date of grant. During the first nine months of 2010, we issued an additional 0.9 million shares of restricted and deferred stock at a weighted-average market value per restricted or deferred share of $29.54, including shares issued to Cadbury employees in the second quarter of 2010 under our annual equity program. In aggregate, we issued 5.7 million restricted and deferred shares during the first nine months of 2010, including those issued as part of our long-term incentive plan.

During the first nine months of 2010, 3.9 million shares of restricted and deferred stock vested at a market value of $114 million.

Stock Options:

In February 2010, as part of our annual equity program, we granted 15.0 million stock options to eligible employees at an exercise price of $29.15. During the first nine months of 2010, we granted an additional 3.0 million stock options at a weighted-average exercise price of $29.71, including options granted to Cadbury employees in the second quarter of 2010 under our annual equity program. In aggregate, we granted 18.0 million stock options in the first nine months of 2010.

There were 5.2 million stock options exercised during the first nine months of 2010 with a total intrinsic value of $65 million.

Note 11. Benefit Plans:

Pension Plans

Components of Net Periodic Pension Cost:

Net periodic pension cost consisted of the following for the three and nine months ended September 30, 2010 and 2009:

	U.S. Plans For the Three Months Ended September 30,		Non-U.S. Plans For the Three Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Service cost	$ 36	$ 36	$ 40	$ 15
Interest cost	92	92	98	54
Expected return on plan assets	(122)	(122)	(111)	(60)
Amortization:				
Net loss from experience differences	43	41	18	6
Prior service cost	1	2	2	1
Other expenses	30	15		
Net periodic pension cost	$ 80	$ 64	$ 47	$ 16

	U.S. Plans For the Nine Months Ended September 30,		Non-U.S. Plans For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Service cost	$ 108	$ 114	$ 117	$ 45
Interest cost	275	276	283	156
Expected return on plan assets	(367)	(364)	(318)	(175)
Amortization:				
Net loss from experience differences	128	120	54	17
Prior service cost	4	5	5	4
Other expenses	91	81		
Net periodic pension cost	$ 239	$ 232	$ 141	$ 47

A significant portion of the 2010 increase in non-U.S. net periodic pension cost related to the Cadbury acquisition. The following costs are included within other expenses above. Severance payments related to our cost savings initiatives and lump-sum payments made to retired employees resulted in settlement losses under our U.S. plans of $30 million for the three months and $86 million for the nine months ended September 30, 2010, and $15 million for the three months and $81 million for the nine months ended September 30, 2009. Our U.S. plans also incurred a $5 million curtailment expense in the first quarter of 2010 related to the divestiture of our Frozen Pizza business.

Employer Contributions:

We make contributions to our U.S. and non-U.S. pension plans, primarily to the extent that they are tax deductible and do not generate an excise tax liability. During the first nine months of 2010, we contributed $33 million to our U.S. plans and $180 million to our non-U.S. plans. Based on current tax law, we plan to make further contributions of approximately $20 million to our U.S. plans and approximately $100 million to our non-U.S. plans during the remainder of 2010. However, our actual contributions may differ due to many factors, including changes in tax and other benefit laws, or significant differences between expected and actual pension asset performance or interest rates.

Postretirement Benefit Plans

Net postretirement health care costs consisted of the following for the three and nine months ended September 30, 2010 and 2009:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Service cost	$ 9	$ 7	$ 29	$ 26
Interest cost	42	43	128	130
Amortization:				
Net loss from experience differences	14	11	41	33
Prior service credit	(7)	(8)	(23)	(24)
Net postretirement health care costs	$ 58	$ 53	$ 175	$ 165

Postemployment Benefit Plans

Net postemployment costs consisted of the following for the three and nine months ended September 30, 2010 and 2009:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Service cost	$ 2	$ 2	$ 6	$ 6
Interest cost	3	3	7	6
Amortization of net (gains) / losses	(1)	(1)	(1)	2
Other credits, net				(7)
Net postemployment costs	$ 4	$ 4	$ 12	$ 7

The following items are included in other credits above. We incurred severance charges of $25 million during the second quarter of 2009 related to our Kraft Foods Europe Reorganization. We also reversed $32 million of severance charges in the second quarter of 2009 related to our Restructuring Program as we sold a plant in Spain that we previously announced we would close under the program.

Note 12. Financial Instruments:

Fair Value of Derivative Instruments:

The fair values of derivative instruments recorded in the condensed consolidated balance sheet as of September 30, 2010 and December 31, 2009 were:

	September 30, 2010		December 31, 2009	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
	(in millions)			
Derivatives designated as hedging instruments:				
Foreign exchange contracts	$ 8	$ 200	$ 8	$ 158
Commodity contracts	52	7	25	14
Interest rate contracts	12	294	153	
	$ 72	$ 501	$ 186	$ 172
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	$ 69	$ 69	$ 2	$
Commodity contracts	152	145	71	62
Interest rate contracts	72	33		
	$ 293	$ 247	$ 73	$ 62
Total fair value	$ 365	$ 748	$ 259	$ 234

The majority of the increase in derivatives not designated as hedging instruments was a result of the Cadbury acquisition as we did not re-designate them for hedge accounting. We include the fair value of our asset derivatives within other current assets and the fair value of our liability derivatives within other current liabilities.

The fair values (asset / (liability)) of our derivative instruments at September 30, 2010 were determined using:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Foreign exchange contracts	$ (192)	$	$ (192)	$
Commodity contracts	52	18	34	
Interest rate contracts	(243)		(243)	
Total derivatives	$ (383)	$ 18	$ (401)	$

Level 2 financial assets and liabilities consist of commodity forwards; foreign exchange forwards, currency swaps, and options; and interest rate swaps.

Commodity derivatives are valued using an income approach based on the observable market commodity index prices less the contract rate multiplied by the notional amount. Foreign currency contracts are valued using an income approach based on observable market forward rates less the contract rate multiplied by the notional amount. Our calculation of the fair value of interest rate swaps is derived from a discounted cash flow analysis based on the terms of the contract and the observable market interest rate curve. Our calculation of the fair value of financial instruments takes into consideration the risk of nonperformance, including counterparty credit risk.

Cash Flow Hedges:

Cash flow hedges affected accumulated other comprehensive earnings / (losses), net of income taxes, as follows:

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
	(in millions)			
Accumulated gain / (loss) at beginning of period	$ (66)	$ 29	$ 101	$ (23)
Transfer of realized (gains) / losses in fair value to earnings	(7)	(2)	(13)	87
Unrealized loss in fair value	(87)	(27)	(248)	(64)
Accumulated loss at September 30	$ (160)	$	$ (160)	$

The effects of cash flow hedges for the three and nine months ended September 30, 2010 and 2009 were:

	For the Three Months Ended September 30, 2010		For the Three Months Ended September 30, 2009	
	Gain /(Loss) Recognized in OCI	(Gain) /Loss Reclassified from AOCI into Earnings	Gain /(Loss) Recognized in OCI	(Gain) /Loss Reclassified from AOCI into Earnings
	(in millions)			
Foreign exchange contracts intercompany loans	$ 2	$	$ 4	$
Foreign exchange contracts forecasted transactions	(4)		(13)	(11)
Commodity contracts	32	(7)	(11)	9
Interest rate contracts	(117)		(7)	
Total	$ (87)	$ (7)	$ (27)	$ (2)

	For the Nine Months Ended September 30, 2010		For the Nine Months Ended September 30, 2009	
	Gain /(Loss) Recognized in OCI	(Gain) /Loss Reclassified from AOCI into Earnings	Gain /(Loss) Recognized in OCI	(Gain) /Loss Reclassified from AOCI into Earnings
	(in millions)			
Foreign exchange contracts intercompany loans	$ 3	$	$ 5	$
Foreign exchange contracts forecasted transactions	21	(14)	(36)	(39)
Commodity contracts	29		(47)	126
Interest rate contracts	(301)	1	14	

Total	$ (248)	$ (13)	$ (64)	$ 87

	For the Three Months Ended September 30, 2010		For the Three Months Ended September 30, 2009	
	Gain / (Loss) on Ineffectiveness Recognized in Earnings	Gain / (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings	Gain / (Loss) on Ineffectiveness Recognized in Earnings	Gain / (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
	(in millions)			
Foreign exchange contracts intercompany loans	$	$	$	$
Foreign exchange contracts forecasted transactions				
Commodity contracts	3	3		1
Interest rate contracts				
Total	$ 3	$ 3	$	$ 1

	For the Nine Months Ended September 30, 2010		For the Nine Months Ended September 30, 2009	
	Gain / (Loss) on Ineffectiveness Recognized in Earnings	Gain / (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings	Gain / (Loss) on Ineffectiveness Recognized in Earnings	Gain / (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
	(in millions)			
Foreign exchange contracts intercompany loans	$	$	$	$
Foreign exchange contracts forecasted transactions				
Commodity contracts	(6)	2	2	1
Interest rate contracts				
Total	$ (6)	$ 2	$ 2	$ 1

We record (i) the gain or loss reclassified from accumulated other comprehensive earnings / (losses) into earnings, (ii) the gain or loss on ineffectiveness, and (iii) the gain or loss on the amount excluded from effectiveness testing in:

- cost of sales for commodity contracts;
- cost of sales for foreign exchange contracts related to forecasted transactions; and
- interest and other expense, net for interest rate contracts and foreign exchange contracts related to intercompany loans.

We expect to transfer unrealized gains of $30 million (net of taxes) for commodity cash flow hedges, unrealized gains of $15 million (net of taxes) for foreign currency cash flow hedges and unrealized losses of $1 million (net of taxes) for interest rate cash flow hedges to earnings during the next 12 months.

Hedge Coverage:

As of September 30, 2010, we had hedged forecasted transactions for the following durations:

commodity transactions for periods not exceeding the next 18 months;
interest rate transactions for periods not exceeding the next 32 years and 7 months; and
foreign currency transactions for periods not exceeding the next 15 months.

Fair Value Hedges:

The effects of fair value hedges for the three and nine months ended September 30, 2010 and 2009 were:

	For the Three Months Ended September 30, 2010		For the Three Months Ended September 30, 2009	
	Gain / (Loss) Recognized in Income on Derivatives	Gain / (Loss) Recognized in Income on Borrowings	Gain / (Loss) Recognized in Income on Derivatives	Gain / (Loss) Recognized in Income on Borrowings
	(in millions)			
Interest rate contracts	$ 3	$ (3)	$ 8	$ (8)

	For the Nine Months Ended September 30, 2010		For the Nine Months Ended September 30, 2009	
	Gain / (Loss) Recognized in Income on Derivatives	Gain / (Loss) Recognized in Income on Borrowings	Gain / (Loss) Recognized in Income on Derivatives	Gain / (Loss) Recognized in Income on Borrowings
	(in millions)			
Interest rate contracts	$ 6	$ (6)	$ 7	$ (7)

We include the gain or loss on hedged long-term debt and the offsetting loss or gain on the related interest rate swap in interest and other expense, net.

Hedges of Net Investments in Foreign Operations:

The effects of hedges of net investments in foreign operations for the three and nine months ended September 30, 2010 and 2009 were:

	Gain / (Loss) Recognized in OCI				Location of
	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009	Gain / (Loss) Recorded in AOCI
	(in millions)				
Euro notes	$ (253)	$ (110)	$ 125	$ (122)	Currency Translation Adjustment

Economic Hedges:

The effects of economic hedges, derivatives that are not designated as hedging instruments, for the three and nine months ended September 30, 2010 and 2009 were:

	Gain / (Loss) Recognized in Earnings				Location of Gain / (Loss) Recognized in Earnings
	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009	
	(in millions)				
Foreign exchange contracts:					
Intercompany loans and forecasted interest payments	$ 35	$ (4)	$ 58	$ (12)	Interest expense
Forecasted transactions	(3)	(2)	(1)	(8)	Cost of sales
Forecasted transactions			(17)		Interest expense
Cadbury acquisition related			(395)		Interest expense
Interest rate contracts	(1)		4		Interest expense
Commodity contracts	29	(7)	40	9	Cost of sales
Total	$ 60	$ (13)	$ (311)	$ (11)	

The hedging losses related to the Cadbury acquisition were economically offset by foreign exchange movement net gains of $240 million on the British pound cash, Cadbury Bridge Facility and payable balances associated with the acquisition. See our consolidated financial statements for the year ended December 31, 2009 for additional information on our purpose for entering into derivatives not designated as hedging instruments and our overall risk management strategies.

Volume:

As of September 30, 2010 and December 31, 2009, we had the following outstanding hedges:

	Notional Amount September 30, 2010	Notional Amount December 31, 2009
	(in millions)	
Foreign exchange contracts:		
Intercompany loans and forecasted interest payments	$ 3,365	$ 1,376
Forecasted transactions	1,351	631
Commodity contracts	368	1,832
Interest rate contracts	5,197	2,350
Net investment hedge euro notes	3,885	4,081

Note 13. Commitments and Contingencies:

Legal Proceedings:

We routinely are involved in legal proceedings, claims and governmental inspections or investigations (Legal Matters) arising in the ordinary course of our business. Currently, we do not believe that the ultimate costs to resolve any of the Legal Matters will have a material effect on our financial results.

Third-Party Guarantees:

We have third-party guarantees primarily covering the long-term obligations of our vendors. As part of those transactions, we guarantee that third parties will make contractual payments or achieve performance measures. At September 30, 2010, the carrying amount of our third-party guarantees on our condensed consolidated balance sheet and the maximum potential payment under these guarantees was $29 million. Substantially all of these guarantees expire at various times through 2018.

Leases:

As of September 30, 2010, minimum rental commitments under non-cancelable operating leases in effect at quarter-end were (in millions):

2011	$ 387
2012	359
2013	243
2014	159
2015	125
Thereafter	275

Note 14. Income Taxes:

As of January 1, 2010, our unrecognized tax benefits were $829 million. If we had recognized all of these benefits, the net impact on our income tax provision would have been $661 million. Our unrecognized tax benefits were $1,193 million at September 30, 2010, and if we had recognized all of these benefits, the net impact to our income tax provision would have been $863 million. The amount of unrecognized tax benefits could decrease by approximately $55 million during the next 12 months due to the potential resolution of certain foreign, U.S. federal and state examinations. Furthermore, we recorded $302 million of unrecognized tax benefits and $47 million of accrued interest and penalties as part of our purchase price allocations for Cadbury, which are subject to revision when the purchase price allocations are finalized in the fourth quarter of 2010. We include accrued interest and penalties related to uncertain tax positions in our tax provision. We had accrued interest and penalties of $210 million as of January 1, 2010 and $242 million as of September 30, 2010.

The changes in our unrecognized tax benefits for the nine months ended September 30, 2010 and 2009 were (in millions):

	2010	2009