

KRAFT FOODS INC  
Form DEF 14A  
March 10, 2006

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A INFORMATION**

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

**Kraft Foods Inc.**

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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.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(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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## KRAFT FOODS INC.

LOUIS C. CAMILLERI  
CHAIRMAN OF THE BOARD

THREE LAKES DRIVE  
NORTHFIELD, IL 60093

March 10, 2006

Dear Fellow Stockholder:

We cordially invite you to attend the 2006 Annual Meeting of Stockholders of Kraft Foods Inc. We will hold the meeting at 9:00 a.m. on Tuesday, April 25, 2006, at the Kraft Foods Inc. Robert M. Schaeberle Technology Center, 188 River Road, East Hanover, New Jersey.

At the meeting, we will vote on the election of nine directors, ratification of the selection of independent auditors, approval of a new stock compensation plan, and, if properly presented, one proposal from stockholders. We will also report on the Company's business, and stockholders will have an opportunity to ask questions.

**Only stockholders of record on March 1, 2006 may attend the annual meeting. Stockholders attending the meeting must present a site pass to gain access to the grounds where the Kraft Foods Inc. Robert M. Schaeberle Technology Center is located. If you are a stockholder and plan to attend the meeting, you MUST request a site pass by April 18, 2006 by writing to the Corporate Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, Illinois 60093 or by faxing your request to the Corporate Secretary at 847-646-2950. If your shares are not registered in your name, you must also send evidence of your stock ownership on March 1, 2006 with your letter. You can obtain this evidence from your bank or brokerage firm. We will mail the site pass to you in advance of the meeting. In addition, if you plan to attend the meeting, please bring government-issued photographic identification.**

The meeting facilities will open at 7:30 a.m. We suggest you arrive early to facilitate your registration and security clearance. Those needing special assistance at the meeting should write the Corporate Secretary at Three Lakes Drive, Northfield, Illinois 60093. **For your comfort and security, we will not permit any packages, briefcases, large pocketbooks or bags in the meeting. We also do not allow cellular and digital phones, audio tape recorders, laptops, video and still cameras, pagers and pets into the meeting.**

Attached you will find a notice of meeting and proxy statement that contains additional information about the meeting, including the methods that you can use to vote your proxy, such as telephone or Internet.

Your vote is important to us. I encourage you to sign and return your proxy card, or use telephone or Internet voting prior to the meeting, so that your shares of common stock will be represented and voted at the meeting even if you cannot attend.

Sincerely,

**For further information about the Annual Meeting,  
please call 1-866-655-7238.**

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**KRAFT FOODS INC.**

Three Lakes Drive  
Northfield, Illinois 60093

**NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS  
OF KRAFT FOODS INC.**

- TIME:** 9:00 a.m. on Tuesday, April 25, 2006
- PLACE:** Kraft Foods Inc. Robert M. Schaeberle Technology Center 188 River Road, East Hanover, New Jersey
- ITEMS OF BUSINESS:**
- (1) To elect nine directors;
  - (2) To ratify the selection of PricewaterhouseCoopers LLP as independent auditors for the fiscal year ending December 31, 2006;
  - (3) To approve the 2006 Stock Compensation Plan for Non-Employee Directors;
  - (4) To vote on one stockholder proposal, if properly presented at the meeting; and
  - (5) To transact other business properly coming before the meeting.
- WHO CAN VOTE:** You can vote if you were a stockholder of record on March 1, 2006.
- 2005 ANNUAL REPORT:** We have enclosed a copy of our 2005 Annual Report.
- DATE OF MAILING:** We are first mailing this notice, the proxy statement, and the accompanying proxy card to stockholders on or around March 24, 2006.

Marc S. Firestone  
*Executive Vice President,*  
*General Counsel and Corporate Secretary*

March 10, 2006

WE URGE EACH STOCKHOLDER TO SIGN AND RETURN THE ENCLOSED PROXY CARD PROMPTLY OR TO USE TELEPHONE OR INTERNET VOTING. SEE OUR QUESTION AND ANSWER SECTION FOR INFORMATION ABOUT VOTING BY TELEPHONE OR INTERNET, HOW TO REVOKE A PROXY, AND HOW TO VOTE YOUR SHARES OF COMMON STOCK IN PERSON.

PLEASE NOTE THAT YOU MUST SUBMIT A REQUEST FOR AN ADMISSION TICKET TO ATTEND THE MEETING. TO OBTAIN AN ADMISSION TICKET, PLEASE FOLLOW THE INSTRUCTIONS SET FORTH ON PAGE 2 IN RESPONSE TO QUESTION 4.

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**KRAFT FOODS INC.**

**Three Lakes Drive  
Northfield, Illinois 60093**

March 10, 2006

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**PROXY STATEMENT  
FOR ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON APRIL 25, 2006**

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Our Board of Directors is furnishing you this proxy statement to solicit proxies on its behalf to be voted at the 2006 Annual Meeting of Stockholders of Kraft Foods Inc. at 9:00 a.m., at the Kraft Foods Inc. Robert M. Schaeberle Technology Center, 188 River Road, East Hanover, New Jersey. The proxies also may be voted at any adjournments or postponements of the meeting.

We are first sending the proxy materials to stockholders on or around March 24, 2006.

If you deliver a properly executed written proxy, or submit a properly completed proxy by telephone or the Internet, that proxy will be voted at the meeting in accordance with the directions given in the proxy, unless you revoke the proxy before the meeting.

Only stockholders of record of shares of common stock at the close of business on March 1, 2006 are entitled to notice of and to vote at the meeting, or at adjournments or postponements of the meeting. Each stockholder of record of Class A Common Stock and Class B Common Stock at the close of business on March 1, 2006 is entitled to vote on all matters to come before the meeting. Holders of Class A Common Stock will be entitled to one vote for each share held. On March 1, 2006, 488,625,533 shares of Class A Common Stock were outstanding, of which Altria Group, Inc. ("Altria Group") held 276,521,185. Holders of Class B Common Stock will be entitled to ten votes for each share held. On March 1, 2006, Altria Group held all of the 1,180,000,000 shares of Class B Common Stock that were outstanding.

**QUESTIONS AND ANSWERS ABOUT  
THE MEETING AND VOTING**

**1. WHAT IS A PROXY?**

It is your legal designation of another person to vote the stock you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that written document also is called a proxy or a proxy card.

**2. WHAT IS THE RECORD DATE AND WHAT DOES IT MEAN?**

The record date for the 2006 Annual Meeting of Stockholders is March 1, 2006. The Board of Directors established the record date, as required by Virginia law. Stockholders of record (registered stockholders and street name holders) at the close of business on the record date are entitled to:

- (a) receive notice of the meeting; and
- (b) vote at the meeting and any adjournments or postponements of the meeting.

**3. WHAT IS THE DIFFERENCE BETWEEN A REGISTERED STOCKHOLDER AND A STOCKHOLDER WHO HOLDS STOCK IN STREET NAME?**

If your shares of stock are registered in your name on the books and records of our transfer agent, you are a registered stockholder. If your shares of stock are held for you in the name of your broker or bank, your shares are held in street name. Question 16 describes brokers' discretionary voting authority and when your bank or broker is permitted to vote your shares of stock without instructions from you.

**4. HOW DO I OBTAIN ADMISSION TO THE MEETING?**

To obtain admission to the meeting, you must request a site pass. Because seating is limited, you may bring only one guest. In addition, all meeting attendees must present government-issued photographic identification at the meeting. Please submit your request for a site pass by April 18, 2006 by writing to the Corporate Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, Illinois 60093 or by faxing your request to the Corporate Secretary at 847-646-2950. Please include the following information:

- (a) your name and mailing address;
- (b) whether you need special assistance at the meeting;
- (c) the name of your guest, if any; and
- (d) if your shares are not registered in your name, evidence of your stock ownership as of March 1, 2006. You can obtain this evidence from your bank or broker.

**5. WHAT ARE THE DIFFERENT METHODS THAT I CAN USE TO VOTE MY SHARES OF COMMON STOCK?**

- (a) *In Writing:* You can vote by mailing your completed proxy card (if you are a registered stockholder) or your completed vote instruction form (if you are a street name holder). Your vote by mail must be received by the close of voting at the meeting on April 25, 2006.
- (b) *By Telephone and Internet Proxy:* If you are a registered stockholder, you also can vote by touchtone telephone from the United States and Canada, using the toll-free telephone number on your proxy card, or by the Internet, using the procedures and instructions described on the proxy card and other enclosures. If you are a street name holder, you may vote by

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telephone or the Internet if your bank or broker makes those methods available to you by enclosing instructions with the proxy statement. The telephone and Internet voting procedures, including the use of control numbers, are designed to authenticate stockholders'



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identities, to allow stockholders to vote their shares, and to confirm that their instructions have been properly recorded. Your vote by telephone or Internet must be received by 11:59 p.m. (ET), April 24, 2006.

(c)

*In Person:* All stockholders may vote in person at the meeting (unless they are street name holders without a legal proxy from their bank or broker).

### 6. HOW CAN I REVOKE A PROXY?

You can revoke a proxy prior to the completion of voting at the meeting by:

(a)

giving written notice to the Corporate Secretary of the Company;

(b)

delivering a later-dated proxy; or

(c)

voting in person at the meeting.

### 7. ARE VOTES CONFIDENTIAL? WHO COUNTS THE VOTES?

We will continue our long-standing practice of holding the votes of each stockholder in confidence from directors, officers and employees except: (a) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company, (b) in case of a contested proxy solicitation, (c) if a stockholder makes a written comment on the proxy card or otherwise communicates his or her vote to management, or (d) to allow the independent inspectors of election to certify the results of the vote. We will also continue, as we have for many years, to retain an independent tabulator to receive and tabulate the proxies and independent inspectors of election to certify the results.

### 8. WHAT ARE THE VOTING CHOICES WHEN VOTING ON DIRECTOR NOMINEES, AND WHAT VOTE IS NEEDED TO ELECT DIRECTORS?

When voting on the election of director nominees to serve until the 2007 Annual Meeting of Stockholders, stockholders may:

(a)

vote in favor of all nominees;

(b)

vote to withhold votes as to all nominees; or

(c)

withhold votes as to specific nominees.

Directors will be elected by a plurality of the votes cast.

The Board recommends a vote "FOR" all of the nominees.

### 9. WHAT ARE THE VOTING CHOICES WHEN VOTING ON THE RATIFICATION OF THE SELECTION OF INDEPENDENT AUDITORS, AND WHAT VOTE IS NEEDED TO RATIFY THE SELECTION?

When voting on the ratification of the selection of auditors for the Company, stockholders may:

(a)

vote in favor of the ratification;

(b)

vote against the ratification; or

(c)

abstain from voting on the ratification.

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The selection of the independent auditors will be ratified if the votes cast "FOR" exceed the votes cast "AGAINST."

The Board recommends a vote "FOR" this proposal.

**10. WHAT ARE THE VOTING CHOICES WHEN VOTING ON THE APPROVAL OF THE 2006 STOCK COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS, AND WHAT VOTE IS NEEDED TO APPROVE THE PLAN?**

When voting on the approval of the 2006 Stock Compensation Plan for Non-Employee Directors (the "Plan"), stockholders may:

- (d) vote in favor of the approval of the Plan;
- (e) vote against the approval of the Plan; or
- (f) abstain from voting on the approval of the Plan.

The Plan will be approved if the votes cast "FOR" exceed the votes cast "AGAINST."

The Board recommends a vote "FOR" this proposal.

**11. WHAT ARE THE VOTING CHOICES WHEN VOTING ON THE STOCKHOLDER PROPOSAL, IF PROPERLY PRESENTED AT THE MEETING, AND WHAT VOTE IS NEEDED TO APPROVE THE STOCKHOLDER PROPOSAL?**

When voting on the stockholder proposal, if properly presented, stockholders may:

- (a) vote in favor of the proposal;
- (b) vote against the proposal; or
- (c) abstain from voting on the proposal.

The stockholder proposal will be approved if the votes cast "FOR" the proposal exceed the votes cast "AGAINST."

The Board recommends a vote "AGAINST" this proposal.

**12. WHAT IF A STOCKHOLDER DOES NOT SPECIFY A CHOICE FOR A MATTER WHEN RETURNING A PROXY?**

You should specify your choice for each matter on the enclosed proxy card. If no specific instructions are given, proxies which are signed and returned will be voted FOR the election of all director nominees, FOR the proposal to ratify the selection of independent auditors, FOR the approval of the Plan, and AGAINST the stockholder proposal.

**13. WHO IS ENTITLED TO VOTE?**

Each stockholder of record of Class A Common Stock and Class B Common Stock at the close of business on March 1, 2006, is entitled to vote on all matters to come before the meeting. Holders of Class A Common Stock will be entitled to one vote for each share held. On March 1, 2006, 488,625,533 shares of Class A Common Stock were outstanding, of which Altria Group held 276,521,185. Holders of Class B Common Stock will be entitled to ten votes for each share held. On March 1, 2006, Altria Group held all of the 1,180,000,000 shares of Class B Common Stock that were outstanding.

**14. HOW DO I VOTE IF I PARTICIPATE IN THE DIVIDEND REINVESTMENT PLAN?**

The proxy card you have received includes your dividend reinvestment plan shares. You may vote your shares through the Internet, by telephone or by mail, all as described on the enclosed proxy card.

**15. WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE PROXY CARD?**

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It means that you have multiple accounts with brokers, banks, and/or our transfer agent. Please vote all of these shares. We recommend that you contact your broker, bank, and/or our transfer agent to consolidate as many accounts as possible under the same name and address. Our transfer agent is Computershare Trust Company,

N.A., P.O. Box 43069, Providence, RI 02940. You can reach Computershare at 1-866-655-7238 (from within the United States and Canada) or 1-781-575-3500 (from outside the United States).

**16. WILL MY SHARES BE VOTED IF I DO NOT PROVIDE MY PROXY?**

Your shares may be voted if they are held in the name of a brokerage firm, even if you do not provide the brokerage firm with voting instructions. Brokerage firms have the authority under New York Stock Exchange ("NYSE") rules to vote shares for which their customers do not provide voting instructions on certain "routine" matters.

NYSE rules deem the election of directors and the ratification of the selection of independent auditors as routine matters for which brokerage firms may vote unvoted shares. NYSE rules do not deem the other proposals to be voted on at our meeting as routine. When a proposal is not a routine matter, and the beneficial owner of shares has not provided voting instructions to the brokerage firm with respect to that proposal, the brokerage firm cannot vote the shares on that proposal. This is called a broker non-vote.

**17. ARE ABSTENTIONS AND BROKER NON-VOTES COUNTED?**

Abstentions and broker non-votes will not be included in vote totals and will not affect the outcome of the vote.

**18. MAY STOCKHOLDERS ASK QUESTIONS AT THE MEETING?**

Yes. The Chairman will answer stockholders' questions of general interest during a designated portion of the meeting. In order to provide an opportunity for everyone who wishes to speak, stockholders will be limited to two minutes. Stockholders may speak a second time only after all others who wish to speak have had their turn. We request that stockholders direct questions and comments to the Chairman and confine their remarks to matters that relate directly to the business of the meeting.

**19. HOW MANY VOTES MUST BE PRESENT TO HOLD THE MEETING?**

In order for us to conduct our meeting, a majority of our outstanding shares of common stock as of March 1, 2006, must be present in person or by proxy at the meeting. This is referred to as a quorum. Abstentions and shares of record held by a broker or its nominee ("Broker Shares") that are voted on any matter are included in determining the number of votes present. Broker Shares that are not voted on any matter will not be included in determining whether a quorum is present.

## BOARD OF DIRECTORS

### Board of Directors

The primary responsibility of the Board of Directors (the "Board") is to foster the long-term success of the Company, consistent with its fiduciary duty to the stockholders. The Board has responsibility for establishing broad corporate policies, setting strategic direction, and overseeing management, which is responsible for the day-to-day operations of the Company. In fulfilling this role, each director must exercise his or her good faith business judgment of the best interests of the Company.

The Board typically holds regular meetings in January, March, April, June, August, October, and December and holds special meetings when necessary. The Board's organizational meeting follows immediately after each Annual Meeting of Stockholders. The Board holds one of its regular meetings at an offsite location for several days each year to review the Company's strategic plan. The Board held seven meetings in 2005. The Company expects directors to attend Board meetings, the Annual Meeting of Stockholders, and meetings of the Committees on which the directors serve, with the understanding that occasionally a director may be unable to attend a meeting. All nominees for director who were serving as directors at the time of the 2005 Annual Meeting of Stockholders attended that meeting, and all nominees for director who served as directors during 2005 attended at least 75% of the aggregate number of meetings of the Board and all Committees of the Board on which they served.

The Board has adopted Corporate Governance Guidelines, which were recently amended as a result of the Board's annual review of the Corporate Governance Guidelines. The revised Corporate Governance Guidelines are attached as Exhibit A to this proxy statement. In addition, the Company has adopted a code of ethics as defined in Item 406 of Regulation S-K, which code applies to all of its employees, including its principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. The Company has also adopted a code of business conduct and ethics that applies to the members of the Board. All of these materials are available on the Company's website, [www.kraft.com](http://www.kraft.com), and will be provided free of charge to any stockholder requesting a copy by writing to the Company's Corporate Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, Illinois 60093. The information on the Company's website is not, and shall not be deemed to be, a part of this proxy statement or incorporated into any other filings the Company makes with the Securities and Exchange Commission.

### Executive Sessions of the Board

Non-management directors meet in regularly scheduled sessions following each Board meeting without any members of management being present. At least once each year, the Board will hold an executive session at which only those directors who meet the independence standards of the New York Stock Exchange are present. In lieu of a regularly presiding director, the Chairman presides over the executive sessions of the non-management directors and the Chairman of the Audit Committee presides over the executive sessions of the independent directors.

### Communications with the Board

Stockholders and other interested parties who wish to communicate with the Board may do so by writing to Non-Management Directors, Board of Directors, Kraft Foods Inc., Three Lakes Drive, Northfield, IL 60093 or to [Kraft-Board@kraft.com](mailto:Kraft-Board@kraft.com). The non-management directors have established procedures for the handling of communications from stockholders and other interested parties and directed the Corporate Secretary to act as their agent in processing any communications received. The Corporate Secretary forwards all communications that relate to matters that are within the scope of the responsibilities of the Board and its Committees to the non-management directors and communications that relate to matters that are within the responsibility of one of the Board Committees to the chair of the appropriate Committee. The Corporate Secretary forwards communications that relate to ordinary business matters that are not within the scope of the Board's responsibilities, such as consumer complaints, to the appropriate employee. The Corporate Secretary does not forward solicitations, junk mail and obviously frivolous or inappropriate communications but makes these communications available to any non-management director who wishes to review them.

## Committees of the Board

The Board has established three Committees of the Board to assist it with the performance of its responsibilities: the Audit Committee, the Compensation Committee and the Nominating and Governance Committee. The Board designates the members of these Committees and the Committee chairs annually at its organizational meeting following the Annual Meeting of Stockholders, based on the recommendation of the Nominating and Governance Committee. The Board has adopted written charters for these Committees. The chair of each Committee, with input from management and the other members of that Committee, develops the agenda for that Committee and determines the frequency and length of Committee meetings.

The Audit Committee consists entirely of non-management directors, all of whom the Board has determined are independent within the meaning of the listing standards of the NYSE and Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Its responsibilities, which include the approval of material transactions with Altria Group, are set forth in the Audit Committee Charter, which was recently amended as a result of the Audit Committee's annual review of its charter. The revised Audit Committee Charter is included as Exhibit B to this proxy statement and is also available on the Company's website at [www.kraft.com](http://www.kraft.com). The Audit Committee's report appears on page 12 of this proxy statement. The Audit Committee met ten times in 2005. The current members of the Audit Committee are: Mr. Pope (chair), Dr. Lerner, Ms. Schapiro, and Ms. Wright.

The Board has determined that all members of the Audit Committee are financially literate and that Mr. Pope is an "audit committee financial expert" within the meaning of the regulations of the Securities and Exchange Commission. No member of the Audit Committee received any payments in 2005 from the Company or its subsidiaries other than compensation received as a director of the Company. In addition, because Mr. Pope serves on the audit committees of more than three public companies, pursuant to the listing standards of the NYSE, and after reviewing meeting attendance records and other matters it deemed relevant, the Board has determined that such simultaneous service on such audit committees does not impair Mr. Pope's ability to serve effectively on the Company's Audit Committee.

The Compensation Committee consists entirely of non-management directors, all of whom the Board has determined are independent within the meaning of the listing standards of the NYSE. Its responsibilities are set forth in the Compensation Committee Charter, which was recently amended as a result of the Compensation Committee's annual review of its charter. The revised Compensation Committee Charter is included as Exhibit C to this proxy statement and is also available on the Company's website at [www.kraft.com](http://www.kraft.com). The Compensation Committee's Report on Executive Compensation appears on pages 18 to 22 of this proxy statement. The Compensation Committee met four times in 2005. Until January 25, 2005, the Company had a combined Compensation and Governance Committee, which met one time in 2005. The current members of the Compensation Committee are: Mr. Farrell (chair), Mr. Bennink, Mr. Pope, and Ms. Wright. Mr. Farrell has declined to be nominated for reelection to the Company's Board of Directors.

The Nominating and Governance Committee consists entirely of non-management directors, all of whom the Board has determined are independent within the meaning of the listing standards of the NYSE. Its responsibilities are set forth in the Nominating and Governance Committee Charter, which was recently amended as a result of the Nominating and Governance Committee's annual review of its charter. The revised Nominating and Governance Committee Charter is included as Exhibit D to this proxy statement and is also available on the Company's website at [www.kraft.com](http://www.kraft.com). The Nominating and Governance Committee met four times in 2005. Until January 25, 2005, the Company had a combined Compensation and Governance Committee, which met one time in 2005. The current members of the Nominating and Governance Committee are: Ms. Schapiro (chair), Mr. Bennink, Mr. Farrell, and Dr. Lerner. As indicated above, Mr. Farrell has declined to be nominated for reelection to the Company's Board of Directors.

## ELECTION OF DIRECTORS

### Process for Nominating Directors

The Nominating and Governance Committee is responsible for identifying and evaluating nominees for director, other than the nominees designated by Altria Group (see "Director Nominations Controlled by Altria Group"), and for recommending to the Board a slate of nominees for election at the Annual Meeting of Stockholders.

In evaluating the suitability of individuals for Board membership, the Nominating and Governance Committee takes into account many factors, including whether the individual meets requirements for independence; the individual's general understanding of the various disciplines relevant to the success of a large publicly traded company in today's global business environment; the individual's understanding of the Company's global businesses and markets; the individual's professional expertise and educational background; and other factors that promote diversity of views and experience. The Nominating and Governance Committee evaluates each individual in the context of the Board as a whole, with the objective of recommending a group of directors that can best perpetuate the success of the business and represent stockholder interests through the exercise of sound judgment, using its diversity of experience. In determining whether to recommend a director for re-election, the Nominating and Governance Committee also considers the director's past attendance at meetings and participation in and contributions to the activities of the Board. The Nominating and Governance Committee has not established any specific minimum qualification standards for nominees to the Board, although from time to time the Nominating and Governance Committee may identify certain skills or attributes (e.g. financial experience, global business experience) as being particularly desirable to help meet specific Board needs that have arisen.

In identifying potential candidates for Board membership, the Nominating and Governance Committee relies on suggestions and recommendations from the Board, stockholders, management and others. From time to time, the Nominating and Governance Committee also retains search firms to assist it in identifying potential candidates for director. Stockholders wishing to suggest candidates to the Nominating and Governance Committee for consideration as directors must submit a written notice to the Corporate Secretary, who will provide it to the Nominating and Governance Committee. The Nominating and Governance Committee does not distinguish between nominees recommended by stockholders and other nominees. The Company's By-Laws set forth the procedures a stockholder must follow to nominate directors. These procedures are summarized in this proxy statement under the caption "2007 Annual Meeting."

### Director Nominations Controlled by Altria Group

Under the terms of a corporate agreement entered into between the Company and Altria Group, so long as Altria Group owns shares representing 50% or more of the voting power of the Company's outstanding common stock, Altria Group has the right to designate for nomination three members of the Board, including the Chairman of the Board. Altria Group also has the right to fill any vacancy resulting from an Altria Group designee's ceasing to serve on the Board. Altria Group's designees on the Board are currently Mr. Camilleri, Mr. Devitre, and Mr. Wall.

### The Nominees

It is proposed that nine directors be elected to hold office until the next Annual Meeting of Stockholders or until their successors have been elected. The Nominating and Governance Committee has recommended to the Board, and the Board has approved, the persons named, and, unless otherwise marked, proxies will be voted for such persons. All of the nominees currently serve as a director, and stockholders elected all of the directors at the 2005 Annual Meeting. Mr. Farrell, a current member of the Company's Board of Directors, has declined to be nominated for reelection to the Board.

The Board has determined that each of the following nominees for director is independent in that such nominee has no material relationship with the Company: Jan Bennink, Richard A. Lerner, M.D., John C. Pope, Mary L. Schapiro, and Deborah C. Wright. To assist it in making these determinations, the Board has adopted categorical standards of director independence that are set forth in Annex A to the Corporate Governance Guidelines included as Exhibit A to this proxy statement. Each of the above-named nominees qualifies as independent under these standards.



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Although the Company does not anticipate that any of the persons named below will be unable or unwilling to stand for election, proxies, in the event of such an occurrence, may be voted for a substitute designated by the Board. However, instead of designating a substitute, the Board may amend the Company's By-Laws to reduce the number of directors.

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**Jan Bennink**

Director since December 2004

Age: 49

Mr. Bennink has been CEO and Chairman of the Executive Board of Royal Numico N.V., a market leader in infant and clinical nutrition, since 2002. Prior to that time, he served as Senior Vice President of Dairy for Group Danone from 1997 until 2002. Mr. Bennink is also a member of the Advisory Council of ABN Amro Holding N.V. Mr. Bennink is a member of the Compensation Committee and the Nominating and Governance Committee.

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**Louis C. Camilleri**

Chairman and Chief Executive Officer, Altria Group, Inc., New York, New York

Director since March 2001

Age: 51

Mr. Camilleri has been Chairman of the Board of Directors of Altria Group since September 2002 and Chief Executive Officer of Altria Group since April 2002, having previously served as Senior Vice President and Chief Financial Officer of Altria Group since November 1996. Mr. Camilleri has been employed continuously by Altria Group and its subsidiaries since 1978. Mr. Camilleri has served as Chairman of the Company's Board since August 2002. He is a member of the New York Stock Exchange Board of Executives.

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**Roger K. Deromedi**

Chief Executive Officer

Director since March 2001

Age: 52

Mr. Deromedi was elected Chief Executive Officer of the Company in December 2003. Prior to that time, he had been co-Chief Executive Officer of the Company since 2001 and President and Chief Executive Officer of Kraft Foods International, Inc. since 1999. Mr. Deromedi has been employed continuously by the Company and its subsidiaries and predecessor, General Foods Corporation, in various capacities since 1977, including service as Executive Vice President and General Manager of the Company's Cheese Division, Executive Vice President and General Manager of its Specialty Products Division, Group Vice President, Kraft Foods International, Inc. and President of its Asia Pacific and Western Europe regions. Mr. Deromedi is also a member of the Stanford University Graduate School of Business Advisory Council, the Board of Trustees of the Chicago Field Museum of Natural History, and the Civic Committee of the Chicago Commercial Club.

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**Dinyar S. Devitre**

Senior Vice President and Chief Financial Officer, Altria Group, Inc., New York, New York

Director since August 2002

Age: 58

Mr. Devitre has been Senior Vice President and Chief Financial Officer of Altria Group since April 2002. From April 2001 to March 2002, he acted as a private business consultant. From January 1998 to March 2001, Mr. Devitre was Executive Vice President at Citigroup Inc. in Europe. Before his assignment at Citigroup, Mr. Devitre's career with the Altria Group family of companies spanned a 27-year period in which he served in a variety of positions. Mr. Devitre is a Director of Lincoln Center Inc. and a trustee of the Asia Society Inc.



**Richard A. Lerner, M.D.**

Director since January 2005

Age: 67

Dr. Lerner has been President of The Scripps Research Institute, a private, non-profit biomedical research organization, since 1986. Dr. Lerner is a member of numerous scientific associations, including the National Academy of Science and the Royal Swedish Academy of Sciences. He is also on the Board of Directors for Xencor, a privately held biotechnology company, and serves on the Scientific Advisory Boards of Senomyx and Dyadic, two biotechnology companies. Dr. Lerner is a member of the Audit Committee and the Nominating and Governance Committee.

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**John C. Pope**

Chairman, PFI Group, LLC, Lake Forest, Illinois

Director since July 2001

Age: 56

Mr. Pope is Chairman of PFI Group, LLC, a financial management firm that invests primarily in venture capital and private equity opportunities, and Waste Management, Inc., a waste collection and disposal firm. From December 1995 to November 1999, Mr. Pope was Chairman of the Board of MotivePower Industries, Inc., a NYSE-listed manufacturer and remanufacturer of locomotives and locomotive components. Prior to joining MotivePower Industries, Inc., Mr. Pope served in various capacities with United Airlines and its parent, UAL Corporation, including as a Director, Vice Chairman, President, Chief Operating Officer, Chief Financial Officer, and Executive Vice President, Marketing and Finance. Prior to that time, he served as Senior Vice President of Finance, Chief Financial Officer and Treasurer for American Airlines and its parent, AMR Corporation. He also serves on the boards of CNF, Inc., Dollar Thrifty Automotive Group Inc., Federal-Mogul Corporation, R.R. Donnelley & Sons Co. and Waste Management, Inc., and is a member of the Board of Trustees of the John G. Shedd Aquarium in Chicago and Chairman of its Finance and Investment Committees. Mr. Pope is chair of the Audit Committee and a member of the Compensation Committee.

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**Mary L. Schapiro**

Vice Chairman, NASD, Inc., and President, Regulatory Policy and Oversight, Washington, D.C.

Director since July 2001

Age: 50

Ms. Schapiro assumed her current position with NASD, Inc., the world's largest private sector regulator of securities markets, in May 2002, having previously held the position of President of NASD Regulation, Inc. since 1996. Prior to joining NASD, she was chair of the Commodity Futures Trading Commission and a Commissioner of the Securities and Exchange Commission. Ms. Schapiro also serves on the Board of Directors of Cinergy Corp., where she is Chair of its Audit Committee. She is a member of the Board of Trustees and a member of the Audit Committee of Franklin and Marshall College. Ms. Schapiro is chair of the Nominating and Governance Committee and a member of the Audit Committee.

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**Charles R. Wall**

Senior Vice President and  
General Counsel, Altria Group,  
Inc., New York, New York

Director since August 2002

Age: 60

Mr. Wall is Senior Vice President and General Counsel of Altria Group, a position that he assumed in February 2000. Mr. Wall has been employed continuously by Altria Group in various capacities since 1990. Mr. Wall is a member of the Board of Directors of the New York City Opera and serves on the Board of The Neurosciences Institute in La Jolla, California.

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**Deborah C. Wright**

Chairman, President and Chief  
Executive Officer, Carver  
Bancorp, Inc., New York,  
New York

Director since July 2001

Age: 48

Ms. Wright assumed her positions as President and Chief Executive Officer of Carver Bancorp, Inc., the holding company for Carver Federal Savings Bank, a federally chartered savings bank and the nation's largest publicly traded African- and Caribbean-American operated bank, in 1999 and became Chairman in 2004. Previously, she served as President and Chief Executive Officer of the Upper Manhattan Empowerment Zone Development Corporation from 1996 to 1999. Ms. Wright is a member of the Board of Overseers of Harvard University and the Board of Managers of Memorial Sloan-Kettering Cancer Center. She serves on the boards of Carver Bancorp, Inc., Time Warner Inc., The Partnership for New York City and the Children's Defense Fund. Ms. Wright also served as a founding member of the Lower Manhattan Development Corporation. Ms. Wright is a member of the Audit and Compensation Committees.

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**The Board recommends a vote FOR the election of each of the nominees, and proxies received by the Board will be so voted unless stockholders specify a contrary choice in their proxies.**

**Compensation of Directors**

Directors who are full-time employees of the Company or Altria Group receive no additional compensation for services as a director. With respect to all other directors ("non-employee directors"), the Company's philosophy is to provide competitive compensation and benefits necessary to attract and retain high-quality non-employee directors and to encourage ownership of Company stock to further align their interests with those of stockholders.

During 2005, non-employee directors received an annual retainer of \$35,000 and fees of \$2,000 for each Board and Committee meeting attended. For additional services rendered in connection with Committee chair responsibilities, the Committee chairs each received a \$5,000 annual retainer. Non-employee directors were also reimbursed for actual expenses in connection with attendance at Board and Committee meetings.

In 2005, pursuant to the 2001 Stock Compensation Plan for Non-Employee Directors, each non-employee director received a restricted stock (or deferred stock) award scheduled to vest one year from the date of grant and equal to that number of shares of Class A Common Stock having an aggregate fair market value of \$100,000 on the date of grant. Accordingly, Mr. Farrell, Mr. Pope, Ms. Schapiro, Ms. Wright, and Dr. Lerner each received 3,211 restricted shares of Class A Common Stock with a fair market value of \$31.145 per share. Also, Mr. Bennink received an award of 3,211 deferred shares with a fair market value of \$31.145 per share.

On February 26, 2006 the Board of Directors approved several changes to Non-Employee Director compensation, effective March 1, 2006. The annual retainer will increase from \$35,000 to \$40,000 and the annual retainer for Committee chairs will increase from \$5,000 to \$10,000. In addition, beginning in 2006, each non-employee director will receive a restricted stock (or deferred stock) award equal to that number of shares of Class A Common Stock having an aggregate fair market value of \$115,000 on the date of grant. This is an increase from the \$100,000 award value granted in 2005. These changes are to maintain non-employee director compensation at a competitive level relative to non-employee directors at companies in the Compensation Survey Group.

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The following table presents the compensation paid by the Company to the non-employee Directors for fiscal year 2005.

### NON-EMPLOYEE DIRECTOR COMPENSATION TABLE

Name	Total Cash <sup>(1)</sup>	Value of Shares of Common Stock	Total
Jan Bennink	\$ 53,103 <sup>(2)</sup>	\$ 100,000	\$ 153,103
W. James Farrell	73,000	100,000	173,000
Richard A. Lerner, M.D.	63,014 <sup>(2)</sup>	100,000	163,014
John C. Pope	91,000	100,000	191,000
Mary L. Schapiro	89,431 <sup>(3)</sup>	100,000	189,431
Deborah C. Wright	86,000	100,000	186,000

- (1) Includes annual retainer, meeting fees and Committee Chair fees, as applicable.
- (2) Retainer is \$35,000 per year and was prorated from the date that Mr. Bennink and Dr. Lerner were each elected to the Board.
- (3) Chair fee is \$5,000 per year and was prorated from the date Ms. Schapiro was appointed Chair of the Nominating and Governance Committee.

A non-employee director may elect to defer the award of restricted shares of Class A Common Stock, meeting fees and all or part of the annual retainer. Deferred fee amounts are credited to an unfunded account and may be "invested" in nine "investment choices," including a Kraft Foods Class A common stock equivalent account. These "investment choices" parallel the investment options offered to employees under the Company's 401(k) plan and determine the amounts credited for bookkeeping purposes to a director's account. Subject to certain restrictions, a non-employee director is permitted to take cash distributions, in whole or in part, from his or her account either prior to or following termination of service.

Non-employee directors also are covered by business travel and accident insurance that the Company maintains for their benefit when they travel on Company business as well as group life insurance.

**AUDIT COMMITTEE MATTERS**

**Audit Committee Report for the Year Ended December 31, 2005**

**To Our Stockholders:**

Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal control over financial reporting. The Audit Committee monitors the Company's financial reporting processes and systems of internal control over financial reporting, the independence and performance of the independent auditors, and the performance of the internal auditors.

Management has represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. Management has also represented that they have assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 and have determined that, as of that date, the Company maintained effective internal control over financial reporting. The Audit Committee has reviewed and discussed with management and the independent auditors this assessment of internal control over financial reporting. The Audit Committee has also discussed with the independent auditors their evaluation of the accounting principles, practices and judgments applied by management, and the Audit Committee has discussed any items required to be communicated to it by the independent auditors in accordance with regulations promulgated by the Securities and Exchange Commission and the Public Company Accounting Oversight Board and standards established by the American Institute of Certified Public Accountants and the Independence Standards Board.

The Audit Committee has received from the independent auditors a letter describing any relationships with the Company that may bear on their independence and has discussed with the independent auditors the auditors' independence from the Company and its management. The Audit Committee has reviewed and approved the audit fees of the independent auditors. It has also reviewed non-audit services and fees to assure compliance with regulations prohibiting the independent auditors from performing specified services that might impair their independence, as well as compliance with the Company's and the Audit Committee's policies.

The Audit Committee discussed with the Company's internal auditors and independent auditors the overall scope of and plans for their respective audits. The Audit Committee has met with the internal auditors and with the independent auditors, separately, with and without management present, to discuss the Company's financial reporting processes and internal accounting controls. The Audit Committee has reviewed significant audit findings prepared by the independent auditors and those prepared by the internal auditors, together with management's responses.

In reliance on the reviews and discussions referred to above, and without other independent verification, the Audit Committee recommended to the Board the inclusion of the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

**Audit Committee:**

John C. Pope, Chair  
Richard A. Lerner, M.D.  
Mary L. Schapiro  
Deborah C. Wright

*The information contained in the report above shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference in such filing.*

## **Independent Auditors' Fees**

### *Audit Fees*

Aggregate fees, including out-of-pocket expenses, for professional services rendered by PricewaterhouseCoopers in connection with (i) the integrated audit of the Company's consolidated financial statements as of and for the year ended December 31, 2005, including statutory audits of the financial statements of the Company's affiliates, and of its internal control over financial reporting as of December 31, 2005, and (ii) the reviews of the Company's unaudited condensed consolidated interim financial statements as of September 30, 2005, June 30, 2005, and March 31, 2005 were \$14.0 million.

Aggregate fees for these services for the year ended December 31, 2004 were \$14.5 million.

### *Audit-Related Fees*

Aggregate fees, including out-of-pocket expenses, for professional services rendered by PricewaterhouseCoopers for audit-related services for the year ended December 31, 2005 were \$1.0 million. Audit-related services include due diligence related to divestitures and an acquisition, employee benefit plan audits, and procedures relating to various other audit and special reports.

Aggregate fees for these services for the year ended December 31, 2004 were \$2.1 million.

### *Tax Fees*

Aggregate fees, including out-of-pocket expenses, for professional services rendered by PricewaterhouseCoopers in connection with tax compliance and advice and preparation of employee expatriate tax returns for the year ended December 31, 2005 were \$1.6 million. Effective in late 2004, the Company appointed a new service provider for the preparation of expatriate tax returns. Other than transitional work, the Company no longer uses PricewaterhouseCoopers for the preparation of expatriate tax returns.

Aggregate fees for these services for the year ended December 31, 2004 were \$3.5 million.

### *All Other Fees*

No fees were paid to PricewaterhouseCoopers during the years ended December 31, 2005 and 2004 for any other professional services.

## **Pre-Approval Policies**

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is detailed as to the particular service or category of service and is subject to a specific engagement authorization by management within the pre-approved category spending limits. The Audit Committee requires the independent auditors and management to report on the actual fees charged for each category of service at Audit Committee meetings throughout the year.

During the year, circumstances may arise when it may become necessary to engage the independent auditors for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent auditors. The Audit Committee has delegated pre-approval authority to the Chair of the Audit Committee for those instances when pre-approval is needed prior to a scheduled Audit Committee meeting. The Chair of the Audit Committee must report on such approvals at the next scheduled Audit Committee meeting.

All fiscal year 2005 audit and non-audit services provided by the independent auditors were pre-approved.

**RATIFICATION OF THE SELECTION OF INDEPENDENT AUDITORS**

The Audit Committee has selected PricewaterhouseCoopers as the Company's independent auditors for the fiscal year ending December 31, 2006 and has further directed that management submit the selection of independent auditors for ratification by the stockholders at the Annual Meeting. Representatives of PricewaterhouseCoopers are expected to be present at the meeting, will be given an opportunity to make a statement if they so desire and will be available to respond to appropriate questions. Stockholder ratification of the selection of PricewaterhouseCoopers as the Company's independent auditors is not required by the Company's Amended and Restated By-Laws or otherwise. The Company is submitting the selection of PricewaterhouseCoopers to stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether to retain PricewaterhouseCoopers. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent audit firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

**The Board recommends a vote FOR the ratification of the selection of PricewaterhouseCoopers, and proxies received by the Board will be so voted unless stockholders specify a contrary choice in their proxies.**



## OWNERSHIP OF EQUITY SECURITIES

The following table shows the number of shares of Class A Common Stock and Altria Group common stock beneficially owned at March 1, 2006, by each director, nominee for director, executive officer named in the Summary Compensation Table, and the directors and executive officers of the Company as a group. None of these individuals owns Class B Common Stock. Unless otherwise indicated, each of the named individuals has sole voting and investment power with respect to the shares shown. The beneficial ownership of the directors and executive officers of the Company individually and as a group is less than 1% of the outstanding Class A Common Stock and less than 1% of Altria Group's outstanding common stock.

Name	Amount and Nature of Beneficial Ownership	
	Class A Common Stock <sup>(1)</sup>	Altria Group Common Stock <sup>(2)</sup>
Jan Bennink	3,211	-0-
Louis C. Camilleri	18,000	2,805,424
Roger K. Deromedi	870,344	604,725
Dinyar S. Devitre	1,204	212,055
W. James Farrell	18,108	-0-
Marc S. Firestone	80,360	112,286
David S. Johnson	247,339	103,502
Richard A. Lerner, M.D.	3,211	-0-
John C. Pope	19,579	-0-
Hugh H. Roberts	225,909	274,351
Mary L. Schapiro	18,279	-0-
Franz-Josef Vogelsang	152,712	137,800
Charles R. Wall	31,620	1,455,133
Deborah C. Wright	10,769	-0-
Group (36 persons)	3,632,691	6,925,118

(1) Includes maximum number of shares as to which these individuals can acquire beneficial ownership upon the exercise of stock options that are currently vested or that will vest before April 29, 2006 as follows: Mr. Deromedi, 279,569; Mr. Farrell, 3,800; Mr. Firestone, 5,970; Mr. Johnson, 67,756; Mr. Pope, 3,995; Mr. Roberts, 61,296; Ms. Schapiro, 3,995; Mr. Vogelsang, 51,536; Mr. Wall, 26,620; Ms. Wright, 3,995; and group, 1,185,030. Also includes 1,670,250 shares of restricted stock and 349,570 shares of deferred stock awarded under the 2001 and 2005 Performance Incentive Plans as follows: Mr. Deromedi, 522,510; Mr. Firestone, 68,390; Mr. Johnson, 155,000; Mr. Roberts, 134,440; Mr. Vogelsang, 89,340; and group, 2,019,820. Also includes shares of restricted and deferred stock pursuant to the 2001 Non-Employee Directors Plan as follows: Mr. Bennink, 3,211; Mr. Farrell, 3,211; Dr. Lerner, 3,211; Mr. Pope, 3,211; Ms. Schapiro, 3,211; Ms. Wright, 3,211; and group, 19,266. Includes 300 shares as to which Mr. Pope disclaims beneficial ownership (shares held by children). Does not include share equivalents held pursuant to the 2001 Non-Employee Directors Plan as follows: Mr. Pope, 5,373; and Ms. Schapiro, 4,168.

(2) Includes maximum number of shares as to which these individuals can acquire beneficial ownership upon the exercise of stock options that are currently vested or that will vest before April 29, 2006 as follows: Mr. Camilleri, 2,050,140; Mr. Deromedi, 412,469; Mr. Firestone, 90,240; Mr. Johnson, 74,675; Mr. Roberts, 125,751; Mr. Vogelsang, 123,800; Mr. Wall, 1,206,708; and group, 4,987,078. Also includes shares of restricted common stock as follows: Mr. Camilleri, 660,000; Mr. Devitre, 87,580; Mr. Wall, 168,850; and group, 918,740.

At March 1, 2006, Altria Group beneficially owned 276,521,185 shares of Class A Common Stock, representing 57% of the outstanding Class A Common Stock, and 1,180,000,000 shares of Class B Common Stock, representing

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100% of the outstanding Class B Common Stock. Other than Altria Group, the only persons or groups known to the Company to be beneficial owners of more than 5% of its Common Stock were as follows:

<b>Name and Address of Beneficial Owner</b>	<b>Number of Shares Beneficially Owned</b>	<b>Percent of Class A Common Stock Outstanding</b>
Lord, Abbett & Co. LLC <sup>(1)</sup> 90 Hudson Street Jersey City, NJ 07302	31,328,571	6.25

(1) The Company has obtained information concerning the Class A Common Stock beneficially owned by Lord, Abbett & Co. LLC as of December 30, 2005 from a Schedule 13G dated February 1, 2006, filed with the Securities and Exchange Commission by Lord, Abbett & Co. LLC.

## EXECUTIVE COMPENSATION

## Comparison of Five-Year Cumulative Total Return

The following graph compares the cumulative total return on the Company's common stock since the Company's initial public offering on June 13, 2001 through December 30, 2005 with the cumulative total return for the same period of the S&P 500 Index and the performance peer group index. The graph assumes the investment of \$100 in Company common stock and each of the indices as of the market close on June 13, 2001, and reinvestment of all dividends.

The performance peer group index consists of companies considered market competitors of the Company, or that have been selected on the basis of industry, level of management complexity, global focus or industry leadership.

Date	Kraft Foods	S&P 500	Kraft Foods Performance Peer Group <sup>(1)</sup>
June 13, 2001	\$ 100.00	\$ 100.00	\$ 100.00
September 28, 2001	110.40	84.24	104.14
December 31, 2001	109.73	93.23	108.02
March 28, 2002	125.04	93.48	115.99
June 28, 2002	132.90	80.98	118.28
September 30, 2002	118.82	67.02	108.79
December 31, 2002	127.36	72.68	108.25
March 31, 2003	92.74	70.39	104.04
June 30, 2003	107.54	81.21	111.50
September 30, 2003	98.06	83.36	114.03
December 31, 2003	107.70	93.49	124.76
March 31, 2004	107.60	95.07	130.08
June 30, 2004	107.10	96.70	135.22
September 30, 2004	107.93	94.89	122.32
December 31, 2004	121.86	103.63	133.27
March 31, 2005	113.80	101.41	133.98
June 30, 2005	110.24	102.79	132.04

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Date	Kraft Foods	S&P 500	Kraft Foods Performance Peer Group <sup>(1)</sup>
September 30, 2005	106.80	106.49	141.94
December 30, 2005	99.16	108.71	140.46

(1) The Kraft performance peer group consists of the following companies considered market competitors of the Company, or that have been selected on the basis of industry, level of management complexity, global focus or industry leadership: Anheuser-Busch Companies, Inc., Cadbury Schweppes plc, Campbell Soup Company, The Clorox Company, The Coca-Cola Company, Colgate-Palmolive Company, ConAgra Foods, Inc., Diageo plc, General Mills, Inc., Groupe Danone, H.J. Heinz Company, Hershey Foods Corporation, Kellogg Company, Nestlé S.A., PepsiCo, Inc., The Procter & Gamble Company, Sara Lee Corporation, and Unilever N.V. Per Securities and Exchange Commission guidelines, the cumulative total return graph has been restated to exclude The Gillette Company as a result of its acquisition by The Procter & Gamble Company in 2005.

## Compensation Committee Report on Executive Compensation

### To Our Stockholders:

This report discusses the Company's compensation programs for executive officers and details of the compensation paid to the Company's Chief Executive Officer for 2005.

The four primary goals of the Company's compensation programs are to:

attract, retain, and motivate talented employees and develop world-class leaders;

support the Company's mission of becoming the undisputed global food leader;

emphasize the relationship between pay and performance by placing a significant portion of compensation at risk and subject to the achievement of short-term and long-term financial and strategic objectives; and

align the interests of executives with those of stockholders through the use of stock ownership guidelines and equity-based awards and long-term cash incentive awards that link compensation to stockholder return.

### Compensation Survey Group

To ensure that the Company's compensation programs are properly benchmarked with those of our competitors, the Committee compares the Company's compensation practices to the compensation practices of companies included in the Compensation Survey Group. At the beginning of 2005, the Compensation Survey Group consisted of the following 16 companies: Anheuser-Busch Companies, Inc., Campbell Soup Company, The Clorox Company, The Coca-Cola Company, Colgate-Palmolive Company, ConAgra Foods, Inc., General Mills, Inc., The Gillette Company (information received prior to the acquisition by The Procter & Gamble Company), H.J. Heinz Company, Hershey Foods Corporation, Johnson & Johnson, Kellogg Company, Kimberly-Clark Corporation, PepsiCo, Inc., The Procter & Gamble Company, and Sara Lee Corporation. These companies have been included in the Compensation Survey Group since the Company's Initial Public Offering in 2001. While there is substantial overlap between these companies and the companies in the Kraft performance peer group used in the graph on page 17, there are some differences. These differences result from the fact that the Compensation Survey Group has been designed primarily to include companies that the Company typically competes with for executive talent in the U.S., and from time to time outside of the U.S.; whose approach to compensation is consistent with U.S.-based multinationals; are in similar lines of business (i.e., food products and other consumer products); have similar levels of management complexity and global focus; have similar revenue and market capitalization levels; and are recognized for their industry and brand leadership. The Kraft performance peer group is a broader group that includes the Company's internationally based business competitors.

The Committee considers the following in determining executive compensation under the Company's compensation programs:

the Company's financial performance compared with its annual and long-term goals and relative to peers where possible, as measured by net earnings, earnings per share growth, revenue and volume growth, and implementation of strategic initiatives, as well as financial comparisons to companies within the performance peer group measured by total stockholder return and net earnings growth;

individual contributions to the Company's performance;

appropriate exercise of management and financial controls;

achievement of results in an appropriate and ethical manner; and

compensation levels set by companies within the Compensation Survey Group.

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The Committee determined that it is appropriate to design programs that deliver total compensation for executives within the third quartile (i.e., up to the 75<sup>th</sup> percentile) of the Compensation Survey Group. Actual awards can exceed the third quartile when business objectives and individual performance exceed targeted goals or be below the third quartile when business objectives and individual performance do not meet expectations.

## Compensation Components

The Company's compensation program elements consist of: base salary, annual cash incentives, and long-term cash and equity incentives, retirement benefits and certain perquisites. The Company also has in place stock ownership requirements for its executives and does not have any change-of-control or other severance arrangements with any of its executives, including the Chief Executive Officer.

An overview of each of the major compensation program elements and the stock ownership guidelines follow.

### Base Salary

Each year, the Committee reviews the base salaries for the Chief Executive Officer and those executive officers reporting to the Chief Executive Officer and determines if an increase is appropriate. The Committee considers a number of factors when reviewing base salaries: Company performance, the executive's individual performance, level of responsibility, tenure, prior experience and a comparison to base salaries paid for comparable positions within the Compensation Survey Group. The Committee does not assign a specific weight to each factor.

At the beginning of 2005, the Committee increased the base salaries of its named executive officers. The increases were as follows:

Executive Officer	Date of Last Base Salary Increase	Base Salary Increase Amount	Base Salary After Increase
Mr. Roger K. Deromedi	April 2005	\$ 100,000	\$ 1,200,000
Mr. Marc S. Firestone	April 2005	\$ 20,000	\$ 580,000
Mr. David S. Johnson	April 2005	\$ 35,000	\$ 635,000
Mr. Hugh H. Roberts	April 2005	\$ 20,000	\$ 545,000
Mr. Franz-Josef Vogelsang <sup>(1)</sup>	April 2005	\$ 38,089	\$ 628,476

(1) Mr. Vogelsang's base salary and increase amount were paid to him in Swiss Francs. These amounts have been converted from Swiss Francs to U.S. dollars based on a December 30, 2005 currency translation rate of 1.3127.

At the beginning of 2006, the Committee decided not to approve a base salary merit increase for the Chief Executive Officer. Similarly, the named executives and other senior executives will not receive base salary merit increases in 2006. This action is in recognition of disappointing business results in 2005 and the decline in stockholder return.

### Annual Incentives

The Company's annual incentive program is designed to motivate and reward participants based on those measures identified as having a positive impact on the Company's annual business results. At the conclusion of each year, the Committee assesses the Company's performance based on quantitative and qualitative measures. Based on these assessments, the Committee determines a rating for the Company in total and each of the Company's two major commercial units. These ratings are used to determine the size of the annual management incentive pool.

For 2005, annual incentive awards to executives were based on an assessment of individual, total company and commercial unit performance. The Committee did not assign specific weights to the performance factors considered. The factors used to evaluate performance included financial measures such as revenue, operating companies income, discretionary cash flow, total stockholder return, earnings per share, and return on management investment. Each factor was measured against both actual 2004 results and the Company's 2005 business plan. The Committee also evaluated the Company's performance against other strategic measures such as market share, volume, portfolio management, societal alignment, diversity and leadership development.

2005 was a difficult year for Kraft driven in part by higher commodity costs and weak Brand Value propositions, which resulted in earnings below expectations. However, some progress was evident in a number of areas, including, positive product mix; strong new products results; solid growth in developing markets; and favorable restructuring results. The Company's stock performed poorly in 2005 and trailed the performance peer group, the

S&P 500 and other indices, as investors were disappointed by flat volumes, weaker earnings and lower margins. Based on 2005 business results, annual incentives paid to each of the named executives were below target and below prior year levels. Similarly, annual incentives paid to all executives were, on average, below target.

For those executives whose compensation is subject to the deductibility limitations of Section 162(m) of the Internal Revenue Code (the "covered officers"), annual incentive awards are also contingent upon the achievement of adjusted net earnings derived from a compensation formula set by the Committee. For 2005, annual incentives paid to the named executives were consistent with financial performance as permitted under the formula established and approved at the beginning of the year.

### Long-Term Incentives

The 2005 Performance Incentive Plan (the "2005 Plan"), approved by stockholders at the 2005 Annual Meeting, enables the Company to grant stock options, stock appreciation rights, restricted stock, and other equity awards, based on the Company's common stock, as well as performance-based, long-term incentive cash awards, to the Company's salaried employees. Long-term incentives focus executives on attaining performance goals over a number of years that are integral to the success of the Company's business, while increasing stockholder returns.

**Restricted Stock.** In 2005, the Committee granted equity awards in the form of restricted stock (or deferred stock for certain employees located outside of the U.S.). The value of the restricted stock is reflected as compensation expense in the Company's financial statements, making the cost of its executive compensation programs more transparent to stockholders. Restricted stock awarded in 2005 will vest three years from the grant date. Recipients of restricted stock receive cash dividends on the shares of restricted stock granted to them at the same time and in the same amounts as the Company's stockholders.

**Stock Ownership Guidelines.** Stock ownership guidelines were introduced in January 2003 and are designed to further align the interests of approximately 180 executives with those of the Company's stockholders. Under these guidelines, executives are expected to acquire and maintain Company stock in an amount equal to a multiple of their base salary as determined by their position. The guidelines range from two times base salary to 12 times base salary for the Chief Executive Officer. Executives are expected to attain their ownership guidelines within five years of becoming an executive or within three years of being promoted to a higher level within the executive population. The Company monitors ownership levels to ensure that executives are on track to meet or exceed their stock ownership guidelines within the required timeframe. Stock ownership under this program is defined as direct ownership of Company common stock, including sole ownership, dividend reinvestment plan shares, restricted shares, and accounts over which the executive has direct or indirect ownership or control. This definition does not include unexercised Company stock options held by the executive.

**Stock Options.** The Company has made no stock option grants to its executives or employees since 2001. However, certain senior executives who exercised their previously granted Altria Group stock options during 2005 and who retained the shares upon exercise did receive Altria Group Executive Ownership Stock Options ("EOSOs"), pursuant to a previously approved program. The EOSO feature promotes the early exercise of stock options and the retention of shares gained through the resulting exercise, thus encouraging executives to build their stock ownership levels. An EOSO is granted when an eligible executive exercises an option after the stock price has appreciated at least 20% above the option grant price. The executive must satisfy payment of the option price using shares of Altria Group common stock that have been owned for at least six months. The EOSO is granted for the number of shares used to cover the exercise price of the underlying option and related taxes, has an exercise price equal to the fair market value of common stock tendered, has a term limited to the remaining term of the original option, and vests six months from the date of grant. The executive is required to hold the net new shares delivered upon exercise for at least one year or the new EOSO grant is forfeited. Stock options granted by the Company in June 2001 that vested January 31, 2003 also include an EOSO feature for those senior executives eligible for the program in 2001.

**Long-Term Incentive Performance Awards.** Long-Term Incentive Performance Awards focus executives on the achievement of long-term financial and strategic goals that contribute to the long-term business success of the Company and have a positive impact on stockholder return. The current three-year long-term performance cycle



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began on January 1, 2004 and is scheduled to conclude on December 31, 2006. Awards payable to executives will be paid in cash and will be based on an assessment of overall Company and individual performance. Company performance will be assessed primarily against total stockholder returns for the performance period. Total stockholder returns will be assessed relative to the Company's performance peer group as well as other indices. Total stockholder returns provide the clearest link to the creation of stockholder value. Company performance will also be assessed relative to financial measures including revenue, volume, earnings per share, discretionary cash flow, operating companies income, and net earnings results. These Company measures were established and approved by the Committee at the beginning of the performance cycle.

For those executives whose compensation is subject to the deductibility limitations of Section 162(m) of the Internal Revenue Code (the "covered officers"), Long-Term Incentive Performance Awards are also contingent upon the achievement of cumulative adjusted net earnings derived from a compensation formula set by the Committee at the beginning of the performance cycle.

### Perquisites

Executive perquisites are listed in the table on page 24. These perquisites are consistent in form and amount as those offered to executives at similar levels at companies in the Compensation Survey Group. Other than the listed perquisites, executives receive the same perquisites that are offered to the broad employee population.

### Compensation of the Chief Executive Officer

The Committee considers the results of a formal Chief Executive Officer performance evaluation when making compensation decisions concerning the Chief Executive Officer.

In January 2005, based on 2004 business performance and based on his compensation relative to other Chief Executive Officers in the Compensation Survey Group, the Committee approved an increase to Mr. Deromedi's base salary to \$1,200,000, effective April 1, 2005. Mr. Deromedi's salary ranks within the third quartile for base salaries paid to chief executive officers of companies in the Compensation Survey Group. Mr. Deromedi will not receive a base salary merit increase in 2006 in recognition of disappointing business results in 2005 and the decline in stockholder return.

For 2005, Mr. Deromedi earned an annual incentive award of \$1,400,000 under the 2005 Plan. This award was below target and 22% below prior year, and ranks within the first quartile of annual incentives paid to chief executive officers of companies in the Compensation Survey Group. In granting this award, the Committee considered a number of factors, including financial performance versus plan and relative to industry peers, and progress against the Company's three-year Sustainable Growth Plan. The factors considered were consistent with the discussion on page 20.

Mr. Deromedi's annual incentive award was subject to and within the limits of the funding formula based on the achievement of adjusted net earnings established at the beginning of the year for all named executives. The funding formula is intended to qualify the annual incentive awards paid to the named executives as performance-based compensation for purposes of IRC Section 162(m) to ensure that these awards are fully tax deductible.

In January 2005, the Committee awarded to Mr. Deromedi 150,090 shares of restricted stock with a grant date value of \$4,957,473 that will vest after three years. In January 2006, the Committee awarded to Mr. Deromedi 172,420 shares of restricted stock with a grant date value of \$4,938,109 that will also vest after three years.

Based on the latest available data, and as a result of these compensation actions, Mr. Deromedi's total annual cash compensation (base salary plus annual incentive) ranks within the first quartile of the Compensation Survey Group. As shown in the Summary Compensation Table, excluding Altria Group EOSOs received in 2005 and 2004 as a result of his exercising stock option grants awarded in previous years, Mr. Deromedi's total compensation from 2004 to 2005 decreased by approximately 15%. Mr. Deromedi's long-term incentive compensation ranks in the third quartile and total compensation (total cash compensation plus all long-term incentive compensation) also ranks in the third quartile of the Compensation Survey Group. For purposes of this ranking, Mr. Deromedi's Long-Term

Incentive Plan cash compensation is considered at target, as the actual amount will not be determined until the end of the performance period in December 2006.

**Policy With Respect To Qualifying Compensation for Deductibility and Other Matters**

The Company's ability to deduct compensation it pays to covered officers is generally limited, under Section 162(m) of the Internal Revenue Code, to \$1,000,000 annually. However, performance-based compensation is not subject to this limitation, provided certain conditions are satisfied. Annual incentive awards granted by the Committee for covered officers in 2005 were subject to, and made in accordance with, arrangements implemented by the Committee and intended to qualify for Section 162(m)'s performance-based compensation exemption, so that such payments would be fully tax-deductible.

Generally, the Company's policy is to preserve the federal income tax deductibility of compensation it pays. Accordingly, the Committee has taken appropriate actions, to the extent the Committee believes feasible, to preserve the deductibility of annual incentive, long-term incentive, and stock option awards. However, the Committee has authorized, and will continue to retain the authority to authorize, payments that may not be deductible if the Committee believes that they are in the stockholders' and the Company's best interests. Compensation paid to the Company's covered officers may exceed the \$1,000,000 deductibility limit because of certain elements of their annual compensation, such as perquisites, restricted stock awards and cash dividends thereon, payments related to reductions in unfunded retirement benefits, tax reimbursements, and income resulting from payments made pursuant to plans that do not discriminate in favor of executive officers.

**Compensation Committee:**

W. James Farrell, Chair  
Jan Bennink  
John C. Pope  
Deborah C. Wright

*The information contained in the report above shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference in such filing.*

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation						Total Compensation <sup>(6)</sup>		
		Salary	Bonus	Other Annual Compensation <sup>(1)</sup>	Restricted Stock Awards <sup>(2)</sup>	Awards		Payouts		All Other Compensation <sup>(5)</sup>	Excludes Altria Group Options (A)	Includes Altria Group Options (B)
						Kraft Foods	Altria Group <sup>(3)</sup>	LTIP <sup>(4)</sup>	Securities Underlying Options			
\$	\$	\$	\$	Shs.	Shs.	\$	\$	\$	\$			
Roger K. Deromedi	2005	1,175,385	1,400,000	371,816	4,957,473	-0-	238,165	-0-	449,500	8,354,174	11,878,241	
Chief Executive Officer	2004	1,137,292	1,800,000	250,470	6,426,000	-0-	175,277	-0-	247,657	9,861,419	11,556,193	
	2003	924,848	900,000	43,702	2,008,799	-0-	40,735	3,700,000	113,485	7,690,834	7,957,498	
Marc S. Firestone <sup>(7)</sup>	2005	575,077	315,000	9,605	743,836	-0-	98,425	-0-	173,113	1,816,631	3,290,117	
Executive Vice President, General Counsel & Corporate Secretary	2004	581,538	385,000	15,610	698,185	-0-	76,235	-0-	78,977	1,759,310	2,497,259	
	2003	213,231	355,000	12,578	-0-	-0-	-0-	925,000	13,756	1,519,565	1,519,565	
David S. Johnson	2005	626,385	450,000	30,277	1,189,741	-0-	14,037	-0-	170,246	2,466,649	2,681,907	
President, North America	2004	620,923	575,000	26,741	2,603,815	-0-	44,719	-0-	114,560	3,941,039	4,455,457	
Commercial	2003	521,808	460,000	25,483	901,306	-0-	26,379	1,300,000	58,127	3,266,724	3,558,309	
Hugh H. Roberts	2005	540,077	340,000	42,717	892,471	-0-	87,431	-0-	138,275	1,953,540	3,163,234	
President, International	2004	543,192	360,000	43,229	2,454,089	-0-	78,906	-0-	96,949	3,497,459	4,040,187	
Commercial	2003	455,085	340,000	684,456	681,035	-0-	-0-	900,000	41,457	3,102,033	3,102,033	
Franz-Josef Vogelsang <sup>(8)</sup>	2005	618,953	472,309	708,362	991,561	-0-	-0-	-0-	80,698	2,871,883	2,871,883	
Executive Vice President, Global Supply Chain	2004	590,386	571,342	997,620	797,788	-0-	-0-	-0-	28,601	2,985,737	2,985,737	
	2003	544,679	399,939	124,898	706,312	-0-	-0-	1,131,256	9,389	2,916,473	2,916,473	

(1) Other Annual Compensation for each of the named executives includes the following amounts:

		Mr. Deromedi	Mr. Firestone	Mr. Johnson	Mr. Roberts	Mr. Vogelsang
Reimbursement for taxes on assets held in trust <sup>(a)</sup>	2005	\$ 42,751	\$ -0-	\$ 8,526	\$ 22,955	\$ -0-
	2004	28,393	4,865	6,594	24,670	-0-
	2003	13,697	-0-	6,771	12,749	-0-
Personal use of company aircraft <sup>(b)</sup>	2005	224,121	-0-	-0-	-0-	-0-
	2004	157,838	-0-	-0-	-0-	-0-
	2003	-0-	-0-	-0-	-0-	-0-
Car expenses <sup>(c)</sup>	2005	35,863	2,105	9,971	12,262	10,780
	2004	18,693	3,245	10,040	12,434	-0-
	2003	19,713	11,258	8,955	25,468	-0-
Financial counseling services	2005	10,000	7,500	10,000	7,500	8,055

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		Mr. Deromedi	Mr. Firestone	Mr. Johnson	Mr. Roberts	Mr. Vogelsang
	2004	10,000	7,500	9,340	6,125	-0-
	2003	9,640	1,320	9,225	500	-0-
Security <sup>(d)</sup>	2005	32,893	-0-	-0-	-0-	-0-
	2004	27,917	-0-	-0-	-0-	-0-
	2003	-0-	-0-	-0-	-0-	-0-
Wireless network <sup>(e)</sup>	2005	24,416	-0-	-0-	-0-	-0-
	2004	6,810	-0-	-0-	-0-	-0-
	2003	-0-	-0-	-0-	-0-	-0-
Tax equalization payments <sup>(f)</sup>	2005	-0-	-0-	-0-	-0-	689,527
	2004	-0-	-0-	-0-	-0-	997,620
	2003	-0-	-0-	-0-	645,739	124,898

(a) These trust assets offset amounts, otherwise payable by the Company or its operating subsidiaries, for vested benefits under non-qualified supplemental retirement plans and are not intended to increase total promised benefits.

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(b) For reasons of security and personal safety, the Company requires Mr. Deromedi to use the Company aircraft for all travel. The incremental cost of personal use of Company aircraft includes the cost of trip-related crew hotels and meals, in-flight food and beverages, landing and ground handling fees, hourly maintenance contract costs, hangar or aircraft parking costs, fuel costs based on the average annual cost of fuel per hour flown, and other smaller variable costs. Fixed costs that would be incurred in any event to operate Company aircraft (e.g., aircraft purchase costs, maintenance not related to personal trips, and flight crew salaries) are not included. Mr. Deromedi is responsible for taxes on these amounts and is not reimbursed for such taxes.

(c) Includes the value of the named executives' use of the Company-provided leased vehicle for personal reasons and the incremental cost of the Company drivers or Company-paid limousine service for personal reasons. For Mr. Deromedi, the value also includes the discount to market value on the purchase of the leased vehicle at the conclusion of the lease period.

(d) Includes the costs associated with installation, maintenance, repairs and monitoring service of the Company-provided home security system.

(e) Includes the costs of installation of a computer network in Mr. Deromedi's home to provide direct and secure connection to the Company's computer network and wireless connectivity with the home security system.

(f) Includes tax equalization payments or reimbursements in connection with a prior international assignment for Mr. Roberts, and a current international assignment for Mr. Vogelsang. These payments or reimbursements are made pursuant to a policy that is designed to facilitate the assignment of employees to positions in other countries by covering taxes over and above those that employees accepting international assignments would have incurred had they remained in their home countries. Differences in tax periods used by taxing jurisdictions, time lags in tax determinations or in the availability of tax credits or refunds, or other factors in some instances create circumstances in which tax equalization payments are recovered by the Company in a different year. Thus, in 2005 and 2004, amounts deducted or received from Mr. Roberts exceeded the Company's payments to taxing authorities on his behalf, including payments for Mr. Roberts' share of U.S. FICA (\$7,720 in 2005 and \$377 in 2004) on the payments made to foreign taxing jurisdictions, by \$31,027 and \$105,871, respectively. For Mr. Firestone, tax equalization payments made by the Company or its subsidiaries in 2004 of \$16,029 is not reflected in the chart above as the Company was reimbursed for such payments by Philip Morris International in connection with a prior international assignment while Mr. Firestone was an employee of Philip Morris International.

(2) The value shown for each year is the number of restricted shares times the closing stock price of the Company's Class A Common Stock on the day of grant. The table below shows the number of shares granted by year and the total number and value of restricted shares held by the named executives as of December 30, 2005. The executives receive the same cash dividends on restricted shares as holders of regular common stock.

	Restricted Stock Award by Year						Total Restricted Stock Held as of December 30, 2005	
	2005		2004		2003		Shares	(\$)
	Shares	(\$)	Shares	(\$)	Shares	(\$)		
Roger K. Deromedi	150,090	4,957,473	200,000	6,426,000	55,630	2,008,799	405,720	11,429,132
Marc S. Firestone	22,520	743,836	21,730	698,185	-0 <sup>(a)</sup>	-0 <sup>(a)</sup>	44,250	1,246,523
David S. Johnson	36,020	1,189,741	81,040	2,603,815	24,960	901,306	142,020	4,000,703
Hugh H. Roberts	27,020	892,471	76,380	2,454,089	18,860	681,035	122,260	3,444,064
Franz-Josef Vogelsang	30,020	991,561	24,830	797,788	19,560	706,312	74,410	2,096,130

(a) Mr. Firestone was granted a deferred stock award payable in shares of Altria Group in connection with his previous employment with Philip Morris International prior to his transfer to the Company.

The closing stock price on date of grant was \$36.11 in 2003; \$32.13 in 2004; and \$33.03 in 2005. The stock price on December 30, 2005, was \$28.17. Included in the above table, Mr. Deromedi received a special restricted stock award of 100,000 shares in 2004 that will vest eight years from the date of grant. Also included in the above table,

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Messrs. Johnson and Roberts each received a special restricted stock award of 50,000 shares in 2004 that will vest five years from the date of grant. All other awards will vest three years from the grant date. See footnote 5 for dividend amounts paid on shares of restricted stock. On January 24, 2006, each of the named executive officers received restricted stock of the Company, with a value at such date as follows: Mr. Deromedi, 172,420 shares, \$4,938,109; Mr. Firestone, 24,140 shares, \$691,370; Mr. Johnson, 37,940 shares, \$1,086,602; Mr. Roberts, 31,040 shares, \$888,986; Mr. Vogelsang, 34,490 shares, \$987,794. In addition, on February 3, 2006, vesting restrictions lapsed for restricted stock awards granted in 2003 with a value at such date as follows; Mr. Deromedi 55,630 shares, \$1,617,442; Mr. Johnson 24,960 shares, \$725,712; Mr. Roberts, 18,860 shares, \$548,355; and Mr. Vogelsang, 19,560 shares, \$568,707.

(3) Represents Altria Group EOSO grants. EOSOs do not become exercisable until six months following their grant and are subject to forfeiture if the executive does not hold the net shares received upon exercise for a period of at least one year following such exercise of the underlying option.

(4) Values reflected in 2003 represent payment upon completion of the 2001 - 2003 performance cycle of the Long-Term Incentive Plan.

(5) The All Other Compensation reported in the table above for the named executives includes the following:

		<u>Mr. Deromedi</u>	<u>Mr. Firestone</u>	<u>Mr. Johnson</u>	<u>Mr. Roberts</u>	<u>Mr. Vogelsang</u>
Employer match on defined contribution plans	2005	133,892	43,204	\$54,062	40,504	-0-
	2004	\$ 91,678	\$ 10,662	48,642	\$ 39,744	\$ -0-
	2003	85,718	-0-	45,081	32,404	-0-
Dividends paid on restricted stock <sup>(a)</sup>	2005	312,065	93,262	112,623	97,771	80,698
	2004	154,444	68,315	64,383	57,205	28,601
	2003	26,702	13,756	11,981	9,053	9,389
Target payments <sup>(b)</sup>	2005	-0-	36,647	-0-	-0-	-0-

(a) Dividends were paid on restricted shares of the Company except for Mr. Firestone whose dividends on his 2003 grant were paid on deferred shares of Altria Group.

(b) Beginning with 2005, Mr. Firestone ceased to accrue additional benefits under Altria Group's supplemental defined contribution and supplemental pension plans. In lieu of additional accruals under those plans, target payments, calculated to yield an after-tax amount approximating the after-tax value of amounts he otherwise would have accrued under the plans, were made in early 2006 to his individual trust. As a result of this change, the specific dollar amounts reported as target payments here effectively replace for 2005 both supplemental retirement plan dollar amounts shown for prior years as Allocations to Defined Contribution Plans and, with respect to the supplemental pension plans, amounts that were included in benefits under the Altria Group, Inc. Retirement Plan.

(6) Total Compensation in columns A and B includes the dollar values presented in salary, bonus, other annual compensation, restricted stock, LTIP (payments reflected in the final year of a performance cycle) and all other compensation. Also included in column B is the grant date present value of Altria Group EOSO stock options granted during the fiscal year as a result of previously granted stock options being exercised by the executive in the respective years.

(7) Mr. Firestone began his employment with the Company on August 5, 2003.

(8) For consistency and where applicable, amounts have been converted from Swiss Francs and British Pounds Sterling to U.S. dollars based on December 30, 2005 currency translation rates of 1.3127 and 0.5780, respectively.

## 2005 Altria Group Stock Option Grants

Name	Grant Date	Number of Shares Underlying Options Granted <sup>(1)</sup>	Percent of Total Options/SARs Granted to Employees in Fiscal Year <sup>(2)</sup>	Exercise Price	Expiration Date	Grant Date Present Value <sup>(3)</sup>	Value at December 30, 2005 <sup>(4)</sup>
Roger K. Deromedi	February 11, 2005	24,911	1.2%	\$ 66.395	June 22, 2007	\$325,848	\$ 207,384
	February 11, 2005	27,394	1.4%	66.395	June 23, 2008	384,064	228,055
	February 11, 2005	47,469	2.3%	66.395	June 29, 2009	709,453	395,179
	February 11, 2005	23,735	1.2%	66.395	June 29, 2009	354,734	197,594
	February 11, 2005	28,488	1.4%	66.395	January 31, 2011	432,701	237,163
	September 2, 2005	86,168	4.3%	70.175	2011	1,317,267	391,634
					January 31, 2011		
Marc. S. Firestone	February 16, 2005	17,541	0.9%	65.565	June 29, 2009	257,412	160,588
	May 2, 2005	10,471	0.5%	65.350	June 29, 2009	147,048	98,113
	May 2, 2005	9,809	0.5%	65.350	June 29, 2009	137,752	91,910
	May 2, 2005	22,343	1.1%	65.350	January 31, 2011	331,820	209,354
	September 1, 2005	10,839	0.5%	70.450	2011	166,729	46,283
	September 1, 2005	12,427	0.6%	70.450	January 31, 2011	191,156	53,063
	November 30, 2005	14,995	0.7%	73.140	2011	241,569	23,692
				June 12, 2011			
				June 12, 2011			
David S. Johnson	May 9, 2005	4,978	0.2%	66.315	January 31, 2011	75,607	41,840
	May 19, 2005	9,059	0.4%	67.010	2011	139,651	69,845
					January 31, 2011		
Hugh H. Roberts	May 3, 2005	15,003	0.7%	65.860	June 22, 2007	153,427	132,927
	May 3, 2005	19,986	1.0%	65.860	June 23, 2008	291,718	177,076
	May 3, 2005	21,432	1.1%	65.860	June 29, 2009	304,536	189,888
	May 3, 2005	7,506	0.4%	65.860	June 29, 2009	106,656	66,503
	May 3, 2005	23,504	1.2%	65.860	January 31, 2011	353,357	208,245
					2011		

(1) Represents Altria Group EOSO grants that do not become exercisable until six months following their grant. EOSO grants are subject to forfeiture if the executive does not hold the net shares received upon exercise for a period of at least one year following such exercise of the underlying option.

(2) Includes those options granted by Altria Group to its employees and employees of its wholly owned and majority-owned subsidiaries.

(3) In accordance with Securities and Exchange Commission rules, grant date present value is determined using the Black-Scholes Model. The Black-Scholes Model is a complicated mathematical formula widely used to value exchange-traded options. Stock options granted by Altria Group are long-term, non-transferable, and subject to vesting restrictions, while exchange-traded options are short-term and can be exercised or sold immediately in a liquid market. The Black-Scholes Model relies on several key assumptions to estimate the present value of options, including the volatility of, and dividend yield on, the security underlying the option, the risk-free rate of return on the date of grant, and the estimated time period until exercise of the option. In calculating the grant date present values set forth in the table, the volatility was based on the monthly closing stock prices and dividends for the five-year period preceding the grant dates, the dividend yield was based on an annual dividend rate applicable at the time of each individual grant, the risk-free rate of return represents the rate of a United States Treasury Note on the date of

grant with a maturity date corresponding to the term of the option, and an estimated time period equal to the lesser of the option term or five years was used. The following assumptions were used in the table:

**Black-Scholes Model Assumptions**

Stock Option Grant	Expiration Date	Volatility	Dividend Yield	Risk-Free Rate of Return	Time Period
Roger K. Deromedi	June 22, 2007	37.602%	4.40%	3.44%	2.4 years
	June 23, 2008	35.452%	4.40%	3.58%	3.4 years
	June 29, 2009	34.746%	4.40%	3.70%	4.4 years
	June 29, 2009	34.746%	4.40%	3.70%	4.4 years
	January 31, 2011	33.991%	4.40%	3.77%	5.0 years
	January 31, 2011	32.471%	4.56%	4.01%	5.0 years
Marc S. Firestone	June 29, 2009	34.746%	4.45%	3.70%	4.4 years
	June 29, 2009	33.705%	4.47%	3.80%	4.2 years
	June 29, 2009	33.705%	4.47%	3.80%	4.2 years
	January 31, 2011	33.865%	4.47%	3.85%	5.0 years
	January 31, 2011	32.471%	4.54%	4.01%	5.0 years
	June 12, 2011	32.471%	4.54%	4.01%	5.0 years
	June 12, 2011	31.221%	4.38%	4.45%	5.0 years
David S. Johnson	January 31, 2011	33.865%	4.40%	3.85%	5.0 years
	January 31, 2011	33.865%	4.36%	3.85%	5.0 years
Hugh H. Roberts	June 22, 2007	30.674%	4.43%	3.65%	2.1 years
	June 23, 2008	37.868%	4.43%	3.73%	3.1 years
	June 29, 2009	33.705%	4.43%	3.80%	4.2 years
	June 29, 2009	33.705%	4.43%	3.80%	4.2 years
	January 31, 2011	33.865%	4.43%	3.85%	5.0 years

The use of different assumptions can produce significantly different estimates of the present value of options. Consequently, the grant date present values set forth in the table are only theoretical values and may not accurately represent present value. The actual value, if any, an optionee will realize will depend on the excess of market value of the common stock over the exercise price on the date the option is exercised.

(4) Based on the closing price of Altria Group common stock of \$74.72 on December 30, 2005.

**2005 Kraft Foods Stock Option Exercises and Year-End Values**

Name	Number of Shares Acquired on Exercise	Value Realized	Total Number of Shares Underlying Unexercised Options Held at December 30, 2005		Total Value of Unexercised In-the-Money Options Held at December 30, 2005 <sup>(1)</sup>	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Roger K. Deromedi	-0-	\$ -0-	279,569	139,785	\$ -0-	\$ -0-
Marc S. Firestone	-0-	-0-	5,970	-0-	-0-	-0-
David S. Johnson	-0-	-0-	67,756	38,714	-0-	-0-
Hugh H. Roberts	-0-	-0-	61,296	38,714	-0-	-0-
Franz-Josef Vogelsang	-0-	-0-	51,536	29,034	-0-	-0-

(1) Based on the closing price of the Company's Class A Common Stock of \$28.17 on December 30, 2005.



## 2005 Altria Group Stock Option Exercises and Year-End Values

Name	Number of Shares Acquired on Exercise	Value Realized	Total Number of Shares Underlying Unexercised Options Held at December 30, 2005		Total Value of Unexercised In-the-Money Options Held at December 30, 2005 <sup>(1)</sup>	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Roger K. Deromedi	368,886	\$ 8,934,893	326,301	86,168	\$ 5,840,603	\$ 391,634
Marc S. Firestone	308,736	6,486,477	66,974	38,261	734,404	123,038
David S. Johnson	49,161	1,048,392	74,675	-0-	1,441,626	-0-
Hugh H. Roberts	152,996	3,694,495	125,751	-0-	1,824,223	-0-
Franz-Josef Vogelsang	12,990	504,694	123,800	-0-	4,172,913	-0-

(1) Based on the closing price of Altria Group common stock of \$74.72 on December 30, 2005.

## Pension Plan Table Kraft Foods Inc. Retirement Plan

Five-Year Average Annual Compensation	Years of Service <sup>(1)</sup>						
	5	10	15	20	25	30	35
\$ 500,000	40,914	81,828	122,742	163,656	204,570	245,484	257,984
\$ 750,000	61,852	123,703	185,555	247,406	309,258	371,109	389,859
\$ 1,000,000	82,789	165,578	248,367	331,156	413,945	496,734	521,734
\$ 1,250,000	103,727	207,453	311,180	414,906	518,633	622,359	653,609
\$ 1,500,000	124,664	249,328	373,992	498,656	623,320	747,984	785,484
\$ 1,750,000	145,602	291,203	436,805	582,406	728,008	873,609	917,359
\$ 2,000,000	166,539	333,078	499,617	666,156	832,695	999,234	1,049,234
\$ 2,250,000	187,477	374,953	562,430	749,906	937,383	1,124,859	1,181,109
\$ 2,500,000	208,414	416,828	625,242	833,656	1,042,070	1,250,484	1,312,984
\$ 2,750,000	229,352	458,703	688,055	917,406	1,146,758	1,376,109	1,444,859
\$ 3,000,000	250,289	500,578	750,867	1,001,156	1,251,445	1,501,734	1,576,734
\$ 3,250,000	271,227	542,453	813,680	1,084,906	1,356,133	1,627,359	1,708,609
\$ 3,500,000	292,164	584,328	876,492	1,168,656	1,460,820	1,752,984	1,840,484

(1) At February 1, 2006, the accredited service is 17.7 years for Mr. Deromedi, 2.4 years for Mr. Firestone, 19.7 years for Mr. Johnson, and 30.7 years for Mr. Roberts.

Mr. Deromedi, Mr. Firestone, Mr. Johnson, and Mr. Roberts participate in the tax-qualified Kraft Foods Retirement Plan and a non-qualified supplemental pension plan. These plans provide for fixed retirement benefits in relation to the participant's years of accredited service, five-year average annual compensation (the highest average annual compensation during any period of five full consecutive years out of the 10 years preceding retirement) and applicable Social Security covered compensation amount. The fixed retirement benefit is also dependent upon the periods of service before January 1, 1989 (for former Kraft Foods Inc. participants) or January 1, 1991 (for former General Foods Corporation participants) in which the participant elected to make contributions. Allowances are payable upon retirement at the normal retirement age of 65 and upon satisfaction of certain conditions at earlier ages. Annual compensation includes the amount shown as annual salary and bonus in the Summary Compensation Table. At December 31, 2005, five-year average annual compensation was \$2,042,347 for Mr. Deromedi; \$938,672 for Mr. Firestone; \$954,808 for Mr. Johnson; and \$803,732 for Mr. Roberts. Mr. Firestone's final average compensation includes compensation earned as an employee of Philip Morris International Inc.

The above table provides examples of annual pension benefits payable under these plans. The examples, which assume retirement at the normal retirement age of 65, are based on the Social Security-covered compensation amount in effect for an employee attaining age 65 in calendar year 2006. Since participant contributions could be

substantial in individual cases, the benefit amounts shown in the table may be attributed in certain instances to participant contributions to a significant degree, depending upon retirement date and years of service.

In recognition of Mr. Deromedi's promotion to Chief Executive Officer of the Company, and in connection with his previous pension benefit earned at General Foods Corporation, the Company has agreed to use his final average earnings at retirement for purposes of calculating this benefit. Based on his year-end 2005 salary and his annual bonus amount paid in 2005, and assuming retirement from the Company at age 65, he would receive an annual non-qualified supplemental benefit payable as a single life annuity of \$510,256. This benefit is in addition to the Kraft Foods Inc. Retirement Plan benefits reflected in the table above.

In prior years, the Company has made available funding payments to certain executives, including Mr. Deromedi, with vested accrued benefits under non-qualified supplemental retirement plans. These amounts offset benefits previously accrued and are not intended to increase total promised benefits.

#### Pension Plan Table Kraft Foods Switzerland Pension Fund

Final Annual Compensation	Years of Service <sup>(1)</sup>				
	10	15	20	25	30
\$ 100,000	\$ 14,854	\$ 22,281	\$ 29,708	\$ 37,135	\$ 44,562
200,000	33,358	50,038	66,717	83,396	100,075
300,000	51,863	77,794	103,725	129,656	155,588
400,000	70,353	105,529	140,705	175,882	211,058
500,000	88,857	133,285	177,714	222,142	266,571
600,000	107,361	161,042	214,722	268,403	322,083
700,000	109,081	163,621	218,161	272,701	327,242

(1) At February 1, 2006, Mr. Vogelsang had accredited service of 8.2 years in the Kraft Foods Switzerland Pension Fund.

Mr. Vogelsang participates in the Kraft Foods Switzerland Pension Fund. The Kraft Foods Benefits Plan in Switzerland is a contributory plan providing benefits related to the participant's years of accredited service and final covered compensation as illustrated by the above table. Benefits are payable upon retirement at the normal retirement age of 65 for men and 63 for women, and at earlier ages, in the form of a pension or half pension and half lump sum. Currently, covered compensation is determined as salary above 1.0 times the expected Social Security Pension (25,800 Swiss Francs, or \$19,654 for 2006) up to a salary of 774,000 Swiss Francs (\$589,624), resulting in an amount below the minimum pensionable salary of 748,200 Swiss Francs (\$569,970), which is a guaranteed insured salary. Due to this limitation, at December 31, 2005, final covered compensation for Mr. Vogelsang was 748,200 Swiss Francs (\$569,970) converted from Swiss Francs to U.S. dollars based on a December 30, 2005 currency translation rate of 1.3127.

Mr. Vogelsang is also eligible to receive a retirement benefit under the retirement plan of a German subsidiary of the Company. Upon retirement at age 60, he would receive, in addition to the retirement allowance payable under the Swiss plan, an annual benefit of 99,727 euros (\$118,384), converted from euros to U.S. dollars based on a currency translation rate of 0.8424, as of December 30, 2005.

#### Employment Contracts, Termination of Employment and Change of Control Arrangements

The Company does not have any change of control or severance agreements with any of its executives, including the Chief Executive Officer. Under an agreement related to the acquisition of the Company by Altria and dated March 27, 1989, Mr. Deromedi, upon ending his employment with the Company, will be covered by lifetime medical, dental and life insurance benefits on terms at least as favorable as those that were available to other executives as of December 1, 1988.

## 2006 STOCK COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS

### Introduction

On February 26, 2006, the Board adopted the 2006 Stock Compensation Plan for Non-Employee Directors (the "2006 Non-Employee Director Plan"), subject to approval of the Company's stockholders. A copy of the 2006 Non-Employee Director Plan is attached as Exhibit E. The 2006 Non-Employee Director Plan is intended to replace the Company's 2001 Director Plan (the "2001 Director Plan"). Approximately 440,000 shares of Common Stock are available under the 2001 Stock Compensation Plan for Non-Employee Directors Director Plan. The 2001 Director Plan will expire upon approval of the 2006 Non-Employee Director Plan by the Company's stockholders and, accordingly, these shares will not be available for grant in 2006 or thereafter if the stockholders approve the 2006 Non-Employee Director Plan. The 2006 Non-Employee Director Plan provides for the issuance of up to 500,000 shares of Common Stock over a five-year period. No equity awards will be made under the 2006 Non-Employee Director Plan unless and until it is approved by stockholders.

The 2006 Non-Employee Director Plan is similar to the 2001 Director Plan, and provides for the annual grant to non-employee directors in the form of Common Stock, other stock-based awards or stock options. Your Board believes that the 2006 Non-Employee Director Plan will help align the interests of the Company's non-employee directors with its stockholders and assist the Company in continuing to attract and retain highly qualified non-employee directors by affording them an opportunity to share in the future successes of the Company.

### Summary of the 2006 Non-Employee Director Plan

The following general description of material features of the 2006 Non-Employee Director Plan is qualified in its entirety by reference to the provisions of the 2006 Non-Employee Director Plan set forth in Exhibit E.

**Eligibility and Limits on Awards.** Only members of the Board who are not full-time employees of the Company, its parent or its subsidiaries will be granted awards under the 2006 Non-Employee Director Plan. At present five non-employee directors will be granted awards under the 2006 Non-Employee Director Plan if it is approved by stockholders.

**Administration.** The Compensation Committee or a subcommittee thereof will administer the 2006 Non-Employee Director Plan. The 2006 Non-Employee Director Plan authorizes the Compensation Committee to delegate such administrative functions as it deems appropriate. This Committee is authorized to adopt modifications, procedures, and subplans as may be necessary or desirable to comply with the tax laws and other rules of foreign jurisdictions in which non-employee directors reside.

**Shares Reserved for Awards.** The total number of shares of Common Stock reserved and available for distribution pursuant to the 2006 Non-Employee Director Plan will be 500,000. If any Stock Option or Other Stock-Based Award is forfeited or expires without the delivery of Common Stock to a participant, the shares subject to such award shall again be available for distribution in connection with awards under the 2006 Non-Employee Director Plan. Any shares of Common Stock that are used by a participant as full or partial payment of withholding or other taxes or as payment for the exercise price of an award shall not be made available for future distribution in connection with awards under the 2006 Non-Employee Director Plan.

In the event of any merger, share exchange, reorganization, consolidation, recapitalization, reclassification, distribution, stock dividend, stock split, reverse stock split, split-up, spin-off, issuance of rights or warrants or other similar transaction or event affecting the Common Stock after adoption of the 2006 Non-Employee Director Plan by the Board, the Compensation Committee is authorized to make such adjustments or substitutions with respect to the 2006 Non-Employee Director Plan and any Prior Director Plan and to awards granted thereunder.

The permitted adjustments and substitutions are only those the Compensation Committee determines are appropriate to reflect the occurrence of such a transaction or event, including, but not limited to, adjustments to the aggregate number and kind of securities reserved for issuance under the Plan, to the award amounts set forth in Section 5(a), and to the number and kind of securities subject to outstanding Awards and, if applicable, to the grant

or exercise price of outstanding Awards. In connection with any such event, this Committee is also authorized to provide for the payment of any outstanding Awards in cash, including, but not limited to, payment of cash in lieu of any fractional Awards.

**Annual Awards.** On the date immediately following the date of the 2006 Annual Meeting of Stockholders, each non-employee director will receive restricted shares of Common Stock having an aggregate fair market value on such date of \$115,000 (with any fractional share being rounded up to the next whole share). Each succeeding year, on the date immediately following the date of the Annual Meeting of Stockholders, each non-employee director will receive an award having an aggregate fair market value of \$115,000 or greater, as determined by the Compensation Committee; such award may be paid in the form of shares of Common Stock, restricted stock, stock options, other stock-based awards, or any combination thereof, as determined by the Compensation Committee. Restricted stock means an award of Common Stock that is subject to forfeiture in the event that the non-employee director ceases to serve as a director of the Company prior to the end of the stated restriction period. Other stock-based awards are awards denominated in, valued in whole or in part by reference to, or otherwise based on or related to, the Common Stock.