QUIDEL CORP /DE/
Form 10-K
February 25, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from N/A to N/A

Commission file number: 0-10961

QUIDEL CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**94-2573850**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10165 McKellar Court **San Diego, California**	**92121**
(Address of principal executive offices)	(Zip Code)

858-552-1100

(Registrant s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common stock, $0.001 par value and accompanying purchase rights	Nasdaq Global Market

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

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

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

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

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o (Do not check if a smaller reporting company)

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

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $297,685,332 based on the closing sale price at which the common stock was last sold, as of the last business day of the registrant s most recently completed second fiscal quarter.

As of February 22, 2011, 33,138,329 shares of the registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(To the Extent Indicated Herein)

Portions of the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the registrant s 2011 Annual Meeting of Stockholders (to be held on May 10, 2011) are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

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A Warning About Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws that involve material risks, assumptions and uncertainties. Many possible events or factors could affect our future financial results and performance, such that our actual results and performance may differ materially from those that may be described or implied in the forward-looking statements. As such no forward-looking statement can be guaranteed. Differences in actual results and performance may arise as a result of a number of factors including, without limitation, seasonality, the timing of onset, length and severity of cold and flu seasons, the level of success in executing on our strategic initiatives, our reliance on sales of our influenza diagnostic tests, uncertainty surrounding the detection of novel influenza viruses involving human specimens, our ability to develop new products and technology, adverse changes in the competitive and economic conditions in domestic and international markets, our reliance on and actions of our major distributors, technological changes and uncertainty with research and technology development, including any future molecular-based technology, the medical reimbursement system currently in place and future changes to that system, manufacturing and production delays or difficulties, adverse regulatory actions or delays in product reviews by the U.S. Food and Drug Administration (the FDA), compliance with FDA and environmental regulations, our ability to meet unexpected increases in demand for our products, our ability to execute our growth strategy, including the integration of new companies or technologies, disruptions in the global capital and credit markets, our ability to hire key personnel, intellectual property, product liability, environmental or other litigation, potential required patent license fee payments not currently reflected in our costs, potential inadequacy of booked reserves and possible impairment of goodwill, and lower than anticipated acceptance, sales or market penetration of our new products. Forward-looking statements typically are identified by the use of terms such as may, will, should, might, expect, anticipate, estimate, and similar words, although some forward-looking statement expressed differently. Forward-looking statements in this Annual Report include, among others, statements concerning: our outlook for the upcoming fiscal year, including projections about our revenue, gross margins, expenses, effective tax rate and the effect the DHI acquisition will have on the seasonality of our business; projected capital expenditures for the upcoming fiscal year and our source of funds for such expenditures; the sufficiency of our liquidity and capital resources; the future impact of deferred tax assets or liabilities; the expected vesting periods of unrecognized compensation expense; and our intention to continue to evaluate technology and Company acquisition opportunities. The risks described under Risk Factors in Item 1A of this Annual Report and elsewhere herein and in reports and registration statements that we file with the Securities and Exchange Commission (the SEC) from time to time, should be carefully considered. You are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis only as of the date of this Annual Report. The following should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto beginning on page F-1 of this Annual Report. We undertake no obligation to publicly release the results of any revision or update of these forward-looking statements, except as required by law.

Part I

Item 1. Business

All references to we, our, and us in this Annual Report refer to Quidel Corporation and its subsidiaries.

Overview

We have a leadership position in the development, manufacturing and marketing of rapid diagnostic testing solutions. These diagnostic testing solutions primarily include applications in infectious diseases, women s health and gastrointestinal diseases. We sell our products directly to end users and distributors, in each case, for professional use in physician offices, hospitals, clinical laboratories, reference laboratories, leading universities, retail clinics and wellness screening centers. We market our products in the U.S. through a network of national and regional distributors, and a direct sales force. Internationally, we sell and market primarily in Japan and Europe through distributor arrangements.

We commenced our operations in 1979 and launched our first products, dipstick-based pregnancy tests, in 1983. Since such time, our product base and technology platforms have expanded through internal development and acquisitions of other products, technologies and companies. Our diagnostic solutions aid in the detection and diagnosis of many critical diseases and other medical conditions, including infectious diseases, women s health, autoimmune

diseases, bone health, thyroid diseases, and fecal occult blood. In February 2010, we expanded our operations through the acquisition of Diagnostic Hybrids, Inc., or DHI, a privately-held, in vitro diagnostics, or IVD, company, based in Athens, Ohio. DHI is a market leader in the manufacturing and commercialization of FDA cleared direct fluorescent IVD assays used in hospitals and reference laboratories for a variety of diseases, including certain viral infections and thyroid diseases.

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We are a corporation, incorporated in the State of Delaware. Our executive offices are located at 10165 McKellar Court, San Diego, California 92121, and our telephone number is (858) 552-1100. This Annual Report and each of our other periodic and current reports, including any amendments thereto, are available, free of charge, on our website, *www.quidel.com*, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The information contained on our website is not incorporated by reference into this Annual Report and should not be considered part of this Annual Report. In addition, the SEC website contains reports, proxy and information statements, and other information about us at *www.sec.gov*.

Recent Developments

In January 2011, we completed a public offering of 4.6 million shares of our common stock at $13.15 per share. We received proceeds, net of underwriting discounts and commissions, of $57.9 million ($12.43 per share) and expect to incur approximately $0.7 million in related offering expenses. We expect to use the net proceeds of this offering for working capital and other general corporate purposes, which may potentially include the acquisition or development of new technology, the acquisition of diagnostic or related companies, products or businesses or the repayment of existing indebtedness.

Business Strategy

Our primary objective is to create shareholder value by building a broader-based diagnostic company, with products in market segments in which we have significant expertise and know-how.

Our diagnostic testing solutions are designed to provide specialized results that serve a range of customers, by addressing varying requirements of reduced cost, increased test accuracy and reduced time to result, thus creating a diagnostic continuum in the IVD market. Our current approach to address this diagnostic continuum relative to our strategy is comprised of three parts:

- lateral flow immunoassay tests;
- direct fluorescent assays (DFA) and culture-based tests; and
- molecular diagnostic tests.

Our strategy to accomplish our primary objective includes the following:

- leveraging our current infrastructure to develop and launch new lateral flow and DFA products;
- developing a molecular diagnostics franchise; and
- strengthening our position with distribution partners to gain more emphasis on our products in the United States and abroad.

Our current initiatives to execute this strategy include the following:

- continue to focus our research and development efforts on three areas:
  - new proprietary product platform development,
  - the creation of improved products and new products for existing markets and unmet clinical needs, and
  - pursuit of collaborations with other companies for new and existing products and markets that advance our differentiated strategy;
- provide clinicians with validated studies that encompass the clinical efficacy and economic efficiency of our diagnostic tests for the professional market;
- continue to focus on strengthening our market and brand leadership in infectious diseases and women s health by acquiring and/or developing and introducing clinically superior diagnostic solutions;

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strengthening our direct sales force to create direct relationships with Integrated Delivery Networks, laboratories and hospitals, with a goal of driving growth through improved physician and laboratorian satisfaction;

support payer evaluation of diagnostic tests and establishment of favorable reimbursement rates;

continue to create strong global alliances to support our efforts to achieve leadership in key markets and expand our presence in emerging markets; and

further refine of our manufacturing efficiencies and productivity improvements to improve profit, with continued focus on profitable products and markets and our effort to create a core competency in new product development.

Product development activities are inherently uncertain, and there can be no assurance that we will be able to obtain approval for any of our products, or if we obtain approval, that we will commercialize any our products. In addition, we may terminate our development efforts with respect to one or more of our products under development at any time, including before or during clinical trials.

The Overall Market for *In Vitro* Diagnostics

Customers for IVD products are primarily centralized laboratories and physician offices and other decentralized non-institutional settings.

Centralized testing market

The centralized diagnostic testing process typically involves obtaining a specimen of blood, urine or other sample from the patient and sending the sample from the healthcare provider s office or hospital unit to a central laboratory. In a typical visit to the physician s office, after the patient s test specimen is collected, the patient is usually sent home and receives the results of the test several hours or days later. The result of this process is that the patient may leave the physician s office without confirmation of the diagnosis and the opportunity to begin potentially more effective immediate care.

Decentralized POC market

Point-of-care, or POC, testing for certain diseases has become an accepted adjunct to central laboratory and self-testing. The professional POC market is comprised of two general segments: decentralized testing in non-institutional settings, such as physicians offices, and hospital testing (e.g., emergency rooms and bedside).

Hospital POC testing is accepted and growing and is generally an extension of the hospital s central laboratory. Hospitals in the U.S. have progressively sought to reduce the length of patient stays and, consequently, the proportion of cases seen as outpatients have increased. If the U.S. experience is representative of future trends, emergency departments and other critical care units such as intensive care units, operating rooms, trauma and cardiac centers are increasingly becoming the principal centers for the management of moderate and severe acute illness.

Out-of-hospital testing sites consist of physicians office laboratories, nursing homes, pharmacies, retail clinics and other non-institutional, ambulatory settings in which healthcare providers perform diagnostic tests.

This decentralized POC market encompasses a large variety of IVD products ranging from moderate-sized instrumented diagnostic systems serving larger group practices to single-use, disposable tests. We believe POC testing is increasing due to its clinical benefit, cost-effectiveness and patient satisfaction.

We believe that the growth in POC testing is in part due to evolving technological improvements creating high quality tests with laboratory accuracy and POC ease-of-use, some of which are capable of being granted a waiver under the Clinical Laboratory Improvement Amendments of 1988, or CLIA.

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Products

We provide diagnostic testing solutions under various brand names, including, among others, the following: QuickVue®, QuickVue+®, Quidel®, MicroVue , FreshCells™ , D³ FastPoint™, Super E-Mix™, ELVIS® and Thyretain®. Our diagnostic testing solutions address the following medical and wellness categories:

Infectious Diseases

QuickVue® *Influenza.* Our QuickVue® influenza tests are rapid, qualitative tests for the detection of the viral antigens of influenza type A and B, the two most common types of the influenza virus. Our first QuickVue® influenza test received FDA clearance in September 1999, with commercialization beginning in December 1999. The FDA granted us the first CLIA waiver for an influenza test in October 2000. Our second generation test, the QuickVue® Influenza A+B test, which allows for the differential diagnosis of influenza type A and type B, received FDA clearance in September 2003 and a CLIA waiver in February 2004.

Group A Strep. Our QuickVue® Strep A tests are intended for the rapid, qualitative detection of Group A Streptococcal antigen from throat swabs or confirmation of presumptive Group A Streptococcal colonies recovered from culture. The tests are used to aid in the diagnosis of Group A Streptococcal infection. Each year millions of people in the U.S. are tested for Group A Strep infections, commonly referred to as strep throat. Group A Streptococci are bacteria that typically cause illnesses such as tonsillitis and pharyngitis which, if left untreated, can progress to secondary complications. Our initial Strep A test, the QuickVue In-line® Strep A test, was the first rapid Strep A test to be granted a CLIA waiver, and we launched additional product offerings with the QuickVue®+ Strep A and the QuickVue® Dipstick Strep A tests in 1996 and 2001, respectively.

RSV Test. Our QuickVue® RSV test is a rapid immunoassay for Respiratory Syncitial Virus (RSV). The majority of upper respiratory tract infections in children are caused by viruses and RSV is generally recognized as a frequent agent responsible for these infections. We launched our RSV test during the fourth quarter of 2006, and we received CLIA waiver in February 2008. In September 2010, we received 510(k) clearance for the sale of our QuickVue® RSV 10 test. QuickVue® RSV 10 detects the RSV antigen directly from nasopharyngeal swab and nasopharyngeal aspirate/wash specimens from symptomatic patients under the age of six. QuickVue® RSV 10 employs the identical test method and sample preparation of our QuickVue® Influenza A+B test, allowing for the use of the same nasopharyngeal patient specimen when testing for influenza or an RSV infection.

Multiplex Respiratory. Our cell culture and DFA detection solutions are used by reference laboratories, public health labs and acute care hospitals to detect seven major viral respiratory pathogens. Our proprietary cell culture platform R-Mix™ combined with our FDA cleared antibody kit D³® Ultra™ DFA, detects Influenza A and B, RSV, Adenovirus and Parainfluenza types 1, 2 and 3, with turn-around times between 16 and 48 hours. The same D³® Ultra DFA™ antibody kit can also be used for direct specimen testing for those viruses with turn-around times in less than 90 minutes. In 2009, we introduced a new FDA cleared technology called D³® FastPoint™ that detects eight viruses, with Human Metapnuemo Virus added to the testing menu. D³® FastPoint™ provides laboratories, in a direct specimen testing format, the ability to produce virus identification in less than 25 minutes from specimen receipt.

General Virology. We provide a wide variety of traditional cell lines, specimen collection devices, media and controls for use in laboratories that culture and test for normal human viruses. We provide cell-based products under the FreshCells™ brand in multiple different formats, including tubes, shell vials and multi-well plates.

Herpes and Herpes Family. Our proprietary engineered cell culture system, ELVIS® HSV, is an FDA cleared and highly sensitive system for the isolation and detection of Herpes Simplex Virus (HSV) types 1 and 2. Herpes is a widespread sexually transmitted infection with a HSV 2 prevalence rate of 16% of the population according to the Centers for Disease Control (CDC). We also provide a multiplex cell culture solution using a propriety cell platform called HSV-Mix ™ that is used to isolate HSV, Varicella Zoster Virus and Cytomegalovirus, all in the herpes family of viruses. Antibody detection and identification of each of these viruses can be performed with FDA cleared antibody products provided under the D³® DFA brand.

Women s Health

Pregnancy. Our QuickVue® pregnancy tests are used in both physicians office labs and acute care settings. In August 2010, we received 510(k) clearance for the sale of our RapidVue® hCG test which is a lateral flow pregnancy test. The early detection of pregnancy enables the physician and patient to institute proper care, helping to promote the

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both the woman and the developing embryo. Our QuickVue® and RapidVue®pregnancy tests are sensitive immunoassay tests for the qualitative detection of human Chorionic Gonoadotropin (hCG) in serum or urine for the early detection of pregnancy.

Graves Disease. Our FDA cleared bioassay called Thyretain® is used for the differential diagnosis of an autoimmune disease called Graves Disease. Graves Disease is caused by antibodies that stimulate the thyroid hormone receptors to create a hyperthyroid condition causing symptoms that include heart palpitations, unexplained weight loss, anxiety, depression and fatigue. Graves Disease is considered the most common autoimmune disorder in the U.S. according to an article published in the New England Journal of Medicine and it predominantly affects women. Thyretain® is sold to reference laboratories and select acute care hospitals and has been successfully deployed on automated testing platforms.

Chlamydia. Our QuickVue® Chlamydia test is a lateral flow immunoassay for the rapid, qualitative detection of Chlamydia trachomatis from endocervical swab and cytology brush specimens. The test is intended for use as an aid in the presumptive diagnosis of Chlamydia. *Chlamydia trachomatis* is responsible for the most widespread sexually transmitted disease in the U.S. Over one-half of infected women do not have symptoms and, if left untreated, *Chlamydia trachomatis* can cause sterility.

Bone Health. Osteoporosis is a systemic skeletal disease characterized by low bone mass and deterioration of the micro-architecture of bone tissue, with a consequent increase in bone fragility and susceptibility to fractures. The risk for fracture increases exponentially with age. A key set of parameters in the monitoring of osteoporosis, both before and after therapy, are biochemical markers of bone metabolism. As a leader in the field of bone markers, we produce both clinical and research products for the assessment of osteoporosis and the evaluation of bone resorption/formation, which, including our metabolic bone markers, are used by physicians to monitor the effectiveness of therapy in pharmaceutical and related research.

Gastrointestinal Diseases

Immunoassay fecal occult blood (iFOB). Our QuickVue® iFOB test is a rapid, fecal immunochemical test (FIT) intended to detect the presence of blood in stool specimens. Blood in the stool is an indication of a number of gastrointestinal disorders, including colorectal cancer. We launched our first iFOB test in late December 2005.

Enterovirus. Enteroviruses reproduce initially in the gastrointestinal tract before spreading to other organs such as the nervous system, heart and skin. Enteroviruses can also infect the respiratory tract. Enteroviruses such as Coxsackievirus A16 are referred to as Hand Foot and Mouth disease and commonly affect infants and children. Our indirect fluorescent antibody (IFA) products sold under the name Super E-Mix™ and D^3 IFA Enterovirus kit are used by reference laboratories and acute care hospitals.

Helicobacter pylori (H. pylori). H. pylori is the bacterium associated with approximately 80% of patients diagnosed with peptic ulcers in the U.S. *H. pylori* is implicated in chronic gastritis and is recognized by the World Health Organization as a Class 1 carcinogen that may increase a person s risk of developing stomach cancer. Once an *H. pylori* infection is detected, antibiotic therapy is administered to eradicate the organism and effect a cure of the ulcer. Our rapid test is a serological test that measures antibodies circulating in the blood caused by the immune response to the *H. pylori* bacterium. Our initial test was the first rapid *H. pylori* test to be granted a CLIA waiver. We launched our second-generation CLIA-waived test, the QuickVue® H. Pylori gII test, in August 2000.

Our Specialty Products Group (SPG) located in Santa Clara, California develops diagnostic and research products in the fields of oncology, bone health and autoimmune disease. Assays are developed on a microwell platform and are currently marketed to clinicians and researchers. SPG is strategically focused on identifying and demonstrating clinical utility around these markers in a variety of disease states. In the area of autoimmune disease, we have developed ELISA based assays and reagents for the detection of activation products from the three main complement pathways. We currently sell these products both directly and through select distributors throughout the world under the Quidel® and MicroVue brands. The SPG revenues, income and assets are less than 10% of our overall operations.

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Seasonality

Sales of our infectious disease products are subject to, and significantly affected by, the seasonal demands of the cold and flu seasons, prevalent during the fall and winter. As a result of these seasonal demands, we typically experience lower sales volume in the second and third quarters of the calendar year, and have higher sales in the first and fourth quarters of the calendar year. Historically, sales of our infectious disease products have varied from year to year based in large part on the severity, length and timing of the onset of the cold and flu season. For the years ended December 31, 2010, 2009 and 2008, sales of our infectious disease products accounted for 61%, 78% and 72%, respectively, of total revenue.

Research and Development

We continue to focus our research and development efforts on three areas:

new proprietary product platform development,

the creation of improved products and new products for existing markets and unmet clinical needs, and

pursuit of collaborations with other companies for new and existing products and markets that advance our differentiated strategy.

Research and development expenses were approximately $24.6 million, $12.5 million and $11.1 million for the years ended December 31, 2010, 2009 and 2008, respectively. DHI contributed $9.1 million to the total research and development expenses for the year ended December 31, 2010. We anticipate that we will continue to devote a significant amount of financial resources to product and technology research and development for the foreseeable future.

Marketing and Distribution

Our business strategy is designed around serving the continuum of healthcare delivery needs starting with the POC clinicians located in small doctor s office practices to moderately complex physician office laboratories (POL) through the highly complex environment in hospital and clinical reference laboratories.

Within the inherent operational diversity of these various segments, we focus on ensuring market leadership and providing points of differentiation by specializing in the diagnosis and monitoring of selected disease states. Our marketing strategy includes ensuring that our key product portfolios are supported by clinical validation and health economic and outcomes research that show hospitals, laboratories, acute care facilities and POC clinicians that these tests deliver high quality results, are cost-effective to use, and improve patient outcomes as a result.

Our distribution strategy needs to accommodate the fact that, the U.S. POC market is highly fragmented, with many small or medium-sized customers. A network of national and regional distributors is utilized, combined with our own direct sales force, to reach customers using POC diagnostic tests. We have developed priority status with several of the major distributors in the U.S., resulting in many of our products having preferred product status with these distributors.

In contrast to the U.S. POC market and the use of waived or moderately complex tests, the sales, distribution and service of our highly complex diagnostic tests are controlled exclusively by us. Since the acquisition of DHI and the integration of the hospital sales forces of the two companies, laboratory end-users in hospitals and clinical reference laboratories utilizing our highly complex diagnostic tests are reached through use of our own direct sales force and technical support services that have specialized training and understanding of the product portfolio.

Internationally, the use of professional rapid POC diagnostic tests, the acceptance of testing outside the central laboratory, the regulatory requirements to sell POC tests and consumer interest in over-the-counter and self-test products, differ considerably from the U.S. Our international sales are significantly lower than domestic sales, largely due to the POC market being more developed in the U.S. relative to the overall IVD market in other countries.

During 2010, we continued to invest in several key areas: further validation of customer needs through voice of customer studies (VOC), support for clinical research to highlight the usefulness and expanding our communications through extensive print and internet advertising, direct mail, promotional campaigns, public relations, peer-reviewed technical publications, professional shows and exhibits, symposia, medical education and support of health economics and outcomes research. Our VOC emphasis enables us to better understand customers needs and requirements in both

domestic and international markets in order to focus our product marketing and distribution partner plans. For example, annual post-

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season flu market research allows us to measure the success of our messaging and the effectiveness of various incentive programs to drive adoption as well as identify new product requirements and assess relevant customer trends for future application to the product line.

We derive a significant portion of our total revenue from a relatively small number of distributors. Four of our distributors, which are considered to be among the market leaders, collectively accounted for approximately 31%, 52% and 57% of our total revenue for the years ended December 31, 2010, 2009 and 2008, respectively. We had sales to one distributor for whom sales exceeded 10% of total revenue for the year ended December 31, 2010. This distributor was Cardinal Healthcare Corporation (Cardinal).

See Note 8. Industry and Geographic Information in the Notes to Consolidated Financial Statements included in this Annual Report.

Manufacturing

In 2010, we had manufacturing operations in San Diego and Santa Clara, California and Athens, Ohio. The San Diego facility, our largest manufacturing operation, produces our lateral flow, immunoassay products. The Santa Clara facility manufactures our microtiter plate products. The Athens facility manufactures our cell cultures and monoclonal antibody kits.

The San Diego facility consists of laboratories devoted to tissue culture, cell culture, protein purification and immunochemistry and production areas dedicated to manufacturing and assembly. In the manufacturing process, biological and chemical supplies and equipment are used. Since the year 2000, the San Diego and Santa Clara facilities have operated under a Quality Management System certified to the International Organization for Standardization (ISO) 9001 certification. During 2005, we became certified to the ISO 13485:2003 Regulatory Standard as required for medical device manufacturers distributing product within the European Union and other countries. Many of the lateral flow and immunoassay products manufactured in our San Diego, California facility are packaged and shipped by a third party located in Southern California.

The Athens facility consists of clean rooms (FS-209E Class 1000: ISO Class 6) for the culturing and dispensing of cell cultures under cGMP conditions. The facility also has laboratories devoted to tissue culture for the production of monoclonal antibodies. In the manufacturing process, biological and chemical supplies are used, as well as specialized equipment. The facility is also certified to the ISO 13485:2003 medical device standard. Packaging and shipping logistics are also handled at the facility.

We seek to conduct all of our manufacturing in compliance with the FDA Quality System Regulations (QSR) (formerly Good Manufacturing Practices) governing the manufacture of medical devices. Our manufacturing facilities have been registered with the FDA and the Department of Health Services of the State of California (the State FDA), and have passed routine federal and state inspections confirming compliance with the QSR regulatory requirements.

Government Regulation

Regulation in the United States

The testing, manufacture and commercialization of our products are subject to regulation by numerous governmental authorities, principally the FDA and corresponding state and foreign regulatory agencies. Pursuant to the U.S. Federal Food, Drug, and Cosmetic Act and the regulations promulgated thereunder, the FDA regulates the preclinical and clinical testing, manufacture, labeling, distribution and promotion of medical devices. Noncompliance with applicable requirements can result in, among other matters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, failure of the FDA to grant premarket clearance or premarket approval for devices, withdrawal of marketing clearances or approvals and criminal prosecution. The FDA also has the authority to request a recall, repair, replacement or refund of the cost of any device manufactured or distributed in the U.S. if the device is deemed to be unsafe.

In the U.S., devices are classified into one of three classes (Class I, II or III) on the basis of the controls deemed necessary by the FDA to reasonably ensure their safety and effectiveness. Class I and II devices are subject to general controls including, but not limited to, performance standards, premarket notification (510(k)) and postmarket surveillance. Class III devices generally pose the highest risk to the patient and are typically subject to premarket approval to ensure their safety and effectiveness. Our current products are all Class I or II.

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Prior to commercialization in the U.S. market, manufacturers must obtain FDA clearance through a premarket notification or premarket approval process, which can be lengthy, expensive and uncertain. The FDA has been requiring more rigorous demonstration of product performance as part of the 510(k) process, including submission of extensive clinical data. It generally takes from three to six months to obtain clearance but may take longer. A premarket approval application must be supported by valid scientific evidence to demonstrate the safety and effectiveness of the device, typically including the results of clinical investigations, bench tests and reference laboratory studies. In addition, modifications or enhancements for existing products that could significantly affect safety or effectiveness, or constitute a major change in the intended use of the device, will require new submissions to the FDA.

On January 30, 2008, the FDA issued guidance entitled Guidance for Industry and FDA Staff Recommendation for CLIA waiver applications. The guidance sets forth new requirements for obtaining a CLIA waiver that are onerous and will increase the time and cost required to obtain a CLIA waiver.

Any devices we manufacture or distribute pursuant to FDA clearance or approvals are subject to continuing regulation by the FDA and certain state agencies, including adherence to QSR relating to testing, control, documentation and other quality assurance requirements. We must also comply with Medical Device Reporting (MDR) requirements mandating reporting to the FDA of any incident in which a device may have caused or contributed to a death or serious injury, or in which a device malfunctioned and, if the malfunction were to recur, would be likely to cause or contribute to a death or serious injury. Labeling and promotional activities are also subject to scrutiny by the FDA and, in certain circumstances, by the Federal Trade Commission. Current FDA enforcement policy prohibits the marketing of approved medical devices for unapproved uses.

Regulation Outside of the United States

For marketing outside the U.S., we are subject to foreign regulatory requirements governing human clinical testing and marketing approval for our products. These requirements vary by jurisdiction, differ from those in the U.S., and may require us to perform additional or different preclinical or clinical testing regardless of whether FDA approval has been obtained. The amount of time required to obtain necessary approvals may be longer or shorter than that required for FDA approval. In many foreign countries, pricing and reimbursement approvals are also required.

Our initial focus for obtaining marketing approval outside the U.S. is typically the European Union (the EU) and Japan. EU Regulations and Directives generally classify health care products either as medicinal products, medical devices or *in vitro* diagnostics. The European Conformity (CE) mark certification requires us to receive ISO certification for the manufacture of our products. This certification comes only after the development of an all-inclusive quality system, which is reviewed for compliance with ISO standards by a licensed body working within the EU. After certification is received, a technical file is developed which attests to the product s compliance with EU directive 98/79/EC for *in vitro* diagnostic medical devices. Only after this point is the product CE marked. The Japanese regulations require registration of *in vitro* diagnostic products with the Japanese Ministry of Health, Labor and Welfare. Additional clinical trials are typically required for registration purposes. For products marketed in Canada, we have our independent party certification under the Canadian Medical Device Regulation.

Intellectual Property

The healthcare industry has traditionally placed considerable importance on obtaining and maintaining patent and trade secret protection for commercially relevant technologies, devices, products and processes. We and other companies engaged in research and development of new diagnostic products actively pursue patents for technologies that are considered novel and patentable. However, important factors, many of which are not within our control, can affect whether and to what extent patent protection in the U.S. and in other important markets worldwide is obtained. By way of example, the speed, accuracy and consistency in application of the law in a patent office within any particular jurisdiction is beyond our control and can be unpredictable. The resolution of issues such as these and their effect upon our long-term success is likewise indeterminable. We have issued patents, both in the U.S. and internationally, with expiration dates ranging from the present through approximately 2027 and have patent applications pending throughout the world.

It has been our policy to file for patent protection in the U.S. and other countries with significant markets, such as Western European countries and Japan, if the economics are deemed to justify such filing and our patent counsel

advises that relevant patent protection may be obtained.

A large number of individuals and commercial enterprises seek patent protection for technologies, products and processes in fields in or related to our areas of product development. To the extent such efforts are successful, we may be

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required to obtain licenses and pay significant royalties in order to exploit certain of our product strategies and avoid a material adverse effect on our business. Licenses may not be available to us at all or, if so available, may not be available on acceptable terms.

We are aware of certain patents issued to various developers of diagnostic products with potential applicability to our diagnostic technology. We have licensed certain rights from certain companies to assist with the manufacturing of certain products. In the future, we expect that we will require or desire additional licenses from other parties in order to refine our products further and to allow us to develop, manufacture and market commercially viable or superior products effectively.

We seek to protect our trade secrets and technology by entering into confidentiality agreements with employees and third parties (such as potential licensees, customers, strategic partners and consultants). In addition, we have implemented certain security measures in our laboratories and offices. Also, to the extent that consultants or contracting parties apply technical or scientific information independently developed by them to our projects, disputes may arise as to the proprietary rights to such data.

Under many of our distribution agreements, we have agreed to indemnify the distributors against costs and liabilities arising out of any patent infringement claims and other intellectual property claims asserted by a third party relating to products sold under those agreements.

Competition

Competition in the development and marketing of IVD products is intense, and innovation, product development, regulatory clearance to market and commercial introduction of new IVD technologies can occur rapidly. We believe that some of the most significant competitive factors in the rapid diagnostic market include convenience, speed to result, specimen flexibility, product menu, price, reimbursement and product performance as well as the effective distribution, advertising, promotion and brand name recognition of the marketer. The competitive factors in the central laboratory market are also significant and include price, product performance, reimbursement, compatibility with routine specimen procurement methods, and manufacturing products in testing formats that meet the workflow demands of larger volume laboratories. We believe our success will depend on our ability to remain abreast of technological advances, to develop, gain regulatory clearance and introduce technologically advanced products, to effectively market to customers a differentiated value proposition represented by our commercialized products, to maintain our brand strength and to attract and retain experienced personnel, who are in great demand. The majority of diagnostic tests requested by physicians and other healthcare providers are performed by independent clinical reference laboratories. These laboratories, we expect, will continue to compete vigorously to maintain their dominance of the testing market. In order to achieve market acceptance for our products, we will be required to continue to demonstrate that our products provide physicians and central laboratories cost-effective and time-saving alternatives to competitive products and technologies.

Many of our current and prospective commercial competitors, including several large pharmaceutical and diversified healthcare companies, have substantially greater financial, marketing and other resources than we have. These competitors include, among others, Alere Inc. (formerly, Inverness Medical Innovations, Inc.) (ALR), Beckman Coulter Primary Care Diagnostics (Beckman), Fisher Scientific Corporation (Fisher), Sekisui Medical Co., LTD. (Sekisui), Becton Dickinson and Company (Becton), Meridian Bioscience, Inc. (Meridian) and Chemicon International, Inc. (Chemicon). We also face competition from our distributors since some have created, and others may decide to create, their own products to compete with ours. Competition may also be provided from large, medium and small development companies whose portfolio and technologies are dedicated to the development of molecular diagnostics in areas of infectious diseases in which we currently have relevant market share.

Human Resources

As of December 31, 2010, we had 532 employees, none of whom are represented by a labor union. We have experienced no work stoppages and believe that our employee relations are good.

Executive Officers of Quidel Corporation

The names, ages and positions of all executive officers as of December 31, 2010 are listed below, followed by a brief account of their business experience during the past five years or more. Officers are normally appointed annually by the Board of Directors at a meeting of the Board of Directors. There are no family relationships among these

officers, nor any arrangements or understandings between any officer and any other person pursuant to which an officer was selected. None of

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these officers has been involved in any court or administrative proceeding within the past ten years adversely reflecting on the officer s ability or integrity.

Douglas C. Bryant, 53, was named President, Chief Executive Officer and a member of the Board of Directors in February 2009. Mr. Bryant s appointment as President and Chief Executive Officer was effective on March 1, 2009. Prior to joining us, Mr. Bryant served as Executive Vice President and Chief Operating Officer at Luminex Corporation, managing its Bioscience Group, Luminex Molecular Diagnostics (Toronto), manufacturing, R&D, technical operations, and commercial operations. From 1983 to 2007, Mr. Bryant held various worldwide commercial operations positions with Abbott Laboratories including, among others: Vice President of Abbott Vascular for Asia/Japan, Vice President of Abbott Molecular Global Commercial Operations and Vice President of Abbott Diagnostics Global Commercial Operations. Earlier in his career with Abbott, Mr. Bryant was Vice President of Diagnostic Operations in Europe, the Middle East and Africa, and Vice President of Diagnostic Operations Asia Pacific. Mr. Bryant has over 25 years of industry experience in sales and marketing, product development, manufacturing and service and support in both the diagnostics and life sciences markets. Mr. Bryant holds a B.A. in Economics from the University of California at Davis.

John M. Radak, 50, became our Chief Financial Officer on February 1, 2007. Prior to joining us, Mr. Radak was Vice President of Finance and Chief Accounting Officer since January 2003 for Invitrogen Corporation, a leading provider of research tools for the life science industry. Mr. Radak also served as Vice President of Finance and Corporate Controller for Sunrise Medical Inc. from December 1994 to August 2001. Prior to joining Sunrise Medical Inc., Mr. Radak held a variety of senior financial management positions with manufacturing companies in the medical device and computer industries. After receiving his B.A. in Business Administration from California State University, Fullerton, Mr. Radak began his career with Deloitte Haskins and Sells. Mr. Radak holds an MBA from the University of Southern California and is a Certified Public Accountant (inactive).

Timothy T. Stenzel, M.D., Ph.D., 49, became our Chief Scientific Officer in September 2009. Prior to joining us, Dr. Stenzel was Vice President and Chief Medical Officer since 2007 for Asuragen Inc (Austin, TX). Dr. Stenzel has also held senior positions at Abbott Laboratories from 2003 to 2007 and Duke University from 1997 to 2003, where he established Duke s molecular laboratory capabilities. Dr. Stenzel received his M.D. and Ph.D. from Duke University and a B.A. in Chemistry from Grinnell College.

Robert J. Bujarski, J.D., 42, rejoined us as our Senior Vice President, General Counsel and Corporate Secretary in June 2008 and in 2010 became our Senior Vice President, Business Development, General Counsel and Corporate Secretary. Mr. Bujarski previously served as our Senior Vice President, General Counsel and Corporate Secretary from March 2007 through March 2008. From July 2005 to March 2007, he was our General Counsel and Vice President. Mr. Bujarski was an associate attorney with the law firm of Gibson, Dunn & Crutcher LLP in its transactions practice group from October 2001 to July 2005. Mr. Bujarski received his B.A. degree in 1991 and his law degree in 2001 from the University of Arizona.

David R. Scholl, Ph.D., 55, has been our Senior Vice President, Commercial Operations and President of Diagnostic Hybrids since February 2010. Prior to joining us, Dr. Scholl was President, Chief Executive Officer and Chairman of the Board of Diagnostic Hybrids. Dr. Scholl joined Diagnostic Hybrids soon after its founding in 1983 as its Director of Research. Dr. Scholl was awarded a post-doctoral fellowship at the Roche Institute for Molecular Biology in Nutley, New Jersey from 1981 to 1983. Dr. Scholl received his Ph.D. from Ohio University and a B.A. in Biology from Indiana University, South Bend.

Scot M. McLeod, 46, has been our Senior Vice President, Operations since July 2007. Mr. McLeod previously served as the Company s Vice-President, Operations from 2001 to July 2007. Mr. McLeod first joined the Company in 1997 as Director of Production and has held various management operations positions with the Company throughout his thirteen years of service. Mr. McLeod has over 20 years experience in operations, and a diverse manufacturing background in both domestic and international environments. Mr. McLeod spent five years with an overseas manufacturing of computer peripherals. Prior to joining Quidel, Mr. McLeod held various positions in operations and quality with Medtronic Interventional Vascular, Hybritech Inc., ALCOA and Information Magnetics Corporation. Mr. McLeod has his B.S. in Chemical Engineering from the University of New Hampshire.

John D. Tamerius, Ph.D., 65, has been our Senior Vice President, Clinical/Regulatory Affairs since November 2008. Dr. Tamerius previously served as the Company s Vice President, Clinical/Regulatory Affairs from 2005 to November 2008. Dr. Tamerius has held a variety of positions with us including, among others: Vice President for Research and Development and General Manager of the Company s Special Products Group. Dr. Tamerius joined the Company in 1983 with the acquisition of Cytotech, Inc. where he served as President. Dr. Tamerius was previously a research associate at Scripps Clinic and Research Foundation. Dr. Tamerius performed postdoctoral research in tumor immunology at the Fred Hutchinson

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Cancer Center in Seattle and was awarded a Bachelor of Science, Master of Science, and Doctor of Philosophy in Microbiology and Immunology, all from the University of Washington.

Item 1A. Risk Factors

Risks Related to Our Business

Our operating results may fluctuate adversely as a result of many factors that are outside our control.

Fluctuations in our operating results, for any reason, could cause our growth or operating results to fall below the expectations of investors and securities analysts. For the year ended December 31, 2010, total revenue decreased 31% to $113.3 million from $164.3 million for the year ended December 31, 2009. This was largely driven by a decrease in sales of our influenza products as a result of the influenza pandemic which occurred in 2009 which was partially offset by the acquisition of DHI in early 2010 and an increase in our core non-seasonal products as a result of inventory levels normalizing at our distributors during 2009. For further discussion of this increase, refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation included in this Annual Report.

We base the scope of our operations and related expenses on our estimates of future revenues. A significant portion of our operating expenses are fixed, and we may not be able to rapidly adjust our expenses if our revenues fall short of our expectations. Our revenue estimates for future periods are based, among other factors, on estimated end-user demand for our products. Furthermore, if end-user consumption is less than estimated, revenues to our distribution partners would be expected to fall short of expectations.

Factors that are beyond our control and that could affect our operating results in the future include:

- seasonal fluctuations in our sales of infectious disease tests, which are generally highest in fall and winter, thus resulting in generally lower operating results in the second and third calendar quarters and higher operating results in the first and fourth calendar quarters;
- timing of the onset, length and severity of the cold and flu seasons;
- government and media attention focused on influenza and the related potential impact on humans from novel influenza viruses, such as H1N1 and avian flu;
- changes in the level of competition, such as would occur if one of our larger and better financed competitors introduced a new or lower priced product to compete with one of our products;
- changes in the reimbursement systems or reimbursement amounts that end-users rely upon in choosing to use our products;
- changes in economic conditions in our domestic and international markets, such as economic downturns, decreased healthcare spending, reduced consumer demand, inflation and currency fluctuations;
- changes in sales levels-because a significant portion of our costs are fixed costs, relatively higher sales would be expected to increase profitability, while relatively lower sales would not reduce costs by the same proportion, and could cause operating losses;
- lower than anticipated market penetration of our new or more recently introduced products;
- significant quantities of our product or that of our competitors in our distributors inventories or distribution channels; and
- changes in distributor buying patterns.

To remain competitive, we must continue to develop, obtain and protect our proprietary technology rights; otherwise, we may lose market share or need to reduce prices as a result of competitors selling technologically

superior products that compete with our products.

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Our ability to compete successfully in the diagnostic market depends on continued development and introduction of new proprietary technology and the improvement of existing technology. If we cannot continue to develop, obtain and protect proprietary technology, our total revenue and gross profits could be adversely affected. Moreover, our current and future licenses may not be adequate for the operation of our business.

Our competitive position is heavily dependent on obtaining and protecting our own proprietary technology or obtaining licenses from others. Our ability to obtain patents and licenses, and their benefits, is uncertain. We have issued patents both in the U.S. and internationally, with expiration dates ranging from the present through approximately 2027. Additionally, we have patent applications pending in various foreign jurisdictions. These pending patent applications may not result in the issuance of any patents, or if issued, may not have priority over others applications or may not offer meaningful protection against competitors with similar technology or may not otherwise provide commercial value. Moreover, any patents issued to us may be challenged, invalidated, found unenforceable or circumvented in the future. In addition to our patents in the U.S., we have patents issued in various other countries including, Australia, Canada, Japan and various European countries, including France, Germany, Italy, Spain and the United Kingdom. Third parties can make, use and sell products covered by our patents in any country in which we do not have patent protection. We also license the right to use our products to our customers under label licenses that are for research purposes only. These licenses could be contested and, because we cannot monitor all potential unauthorized uses of our products around the world, we might not be aware of an unauthorized use or might not be able to enforce the license restrictions in a cost-effective manner. In the future, we expect that we will require or desire additional licenses from other parties in order to refine our products further and to allow us to develop, manufacture and market commercially viable or superior products. Also, we may not be able to obtain licenses for technology patented by others and required to produce our products on commercially reasonable terms.

To protect or enforce our patent rights, it may be necessary for us to initiate patent litigation proceedings against third parties, such as infringement suits or interference proceedings. These lawsuits would be expensive, take significant time and would divert management s attention from other business concerns. In the event that we seek to enforce any of our patents against an infringing party, it is likely that the party defending the claim will seek to invalidate the patents we assert, which could put our patents at risk of being invalidated, held unenforceable, or interpreted narrowly, and our patent applications at risk of not being issued. Further, these lawsuits may provoke the defendants to assert claims against us. If we pursue any such claim, we cannot assure you that we will prevail in any of such suits or proceedings or that the damages or other remedies awarded to us, if any, will be commercially valuable.

In addition to our patents, we rely on confidentiality agreements and other similar arrangements with our employees and other persons who have access to our proprietary and confidential information, together with trade secrets and other common law rights, to protect our proprietary and confidential technology. These agreements and laws may not provide meaningful protection for our proprietary technology in the event of unauthorized use or disclosure of such information or in the event that our competitors independently develop technologies that are substantially equivalent or superior to ours. Moreover, the laws of some foreign jurisdictions may not protect intellectual property rights to the same extent as those in the United States. In the event of unauthorized use or disclosure of such information, if we encounter difficulties or are otherwise unable to effectively protect our intellectual property rights domestically or in foreign jurisdictions, our business, operating results and financial condition could be materially and adversely affected.

In order to remain competitive and profitable, we must expend considerable resources to research new technologies and products and develop new markets, and there is no assurance our efforts to develop new technologies, products or markets will be successful or such technologies, products or markets will be commercially viable.

We devote a significant amount of financial resources to researching and developing new technologies, new products and new markets. The development, manufacture and sale of diagnostic products require a significant investment of resources. Moreover, no assurances can be given that our efforts to develop new technologies or products will be successful or that such technologies and products will be commercially viable.

The development of new markets also requires a substantial investment of resources, such as new employees, offices and manufacturing facilities. Accordingly, we are likely to incur increased operating expenses as a result of our increased investment in sales and marketing activities, manufacturing scale-up and new product development associated with our efforts to accomplish our growth strategies discussed in Item 1 of this Annual Report.

As a result of any number of risk factors identified in this Annual Report, no assurance can be given that we will be successful in implementing our operational, growth and other strategic efforts. In addition, the funds for our strategic development projects have in the past come primarily from our business operations and a working capital line of credit. If our business slows and we become less profitable, and as a result have less money available to fund research and development, we will have to decide at that time which programs to reduce, and by how much. Similarly, if adequate financial, personnel, equipment or other resources are not available, we may be required to delay or scale back our strategic efforts. Our operations will be adversely affected if our total revenue and gross profits do not correspondingly increase or if our technology, product

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and market development efforts are unsuccessful or delayed. Furthermore, our failure to successfully introduce new technologies or products and develop new markets could have a material adverse effect on our business and prospects.

We rely on a limited number of key distributors which account for a substantial majority of our total revenue. The loss of any key distributor or an unsuccessful effort by us to directly distribute our products could lead to reduced sales.

Although we have many distributor relationships in the U.S., the market is dominated by a small number of these distributors. Four of our distributors, which are considered to be among the market leaders, collectively accounted for approximately 31%, 52% and 57% of our total revenue for the years ended December 31, 2010, 2009 and 2008, respectively. We had sales to one distributor for whom sales exceeded 10% of total revenue for the year ended December 31, 2010. This distributor was Cardinal. In addition, we rely on a few key distributors for a majority of our international sales, and expect to continue to do so for the foreseeable future. The loss or termination of our relationship with any of these key distributors could significantly disrupt our business unless suitable alternatives were timely found or lost sales to one distributor are absorbed by another distributor. Finding a suitable alternative to a lost or terminated distributor may pose challenges in our industry s competitive environment, and another suitable distributor may not be found on satisfactory terms, if at all. For instance, some distributors already have exclusive arrangements with our competitors, and others do not have the same level of penetration into our target markets as our existing distributors. If total revenue to these or any of our other significant distributors were to decrease in any material amount in the future or we are not successful in timely transitioning business to new distributors, our business, operating results and financial condition could be materially and adversely affected.

Our operating results are heavily dependent on sales of our influenza diagnostic tests.

Although we continue to diversify our products, a significant percentage of our total revenues still continue to come from a limited number of our product families. In particular, revenues from the sale of our influenza tests represent a significant portion of our total revenues and are expected to remain so in at least the near future. In addition, the gross margins derived from sales of our influenza tests are significantly higher than the gross margins from our other core products. As a result, if sales or revenues of our influenza tests decline for any reason whether as a result of market share loss or price pressure, obsolescence, a mild flu season, regulatory matters or any other reason our operating results would be materially and adversely affected on a disproportionate basis. For the years ended December 31, 2010, 2009 and 2008, sales of our infectious disease products (including influenza test sales) accounted for 61%, 78% and 72%, respectively, of total revenue.

If we are not able to manage our growth strategy or if we experience difficulties integrating companies or technologies we may acquire after their acquisition, our earnings may be adversely affected.

Our business strategy contemplates further growth, which is likely to result in expanding the scope of operating and financial systems and the geographical area of our operations, including further expansion outside the U.S., as new products and technologies are developed and commercialized or new geographical markets are entered. We may experience difficulties integrating the operations of other companies or technologies that we may acquire with our own operations, and as a result we may not realize our anticipated benefits and cost savings within our expected time frame, or at all. Because we have a relatively small executive staff, future growth may also divert management s attention from other aspects of our business, and will place a strain on existing management and our operational, financial and management information systems. Furthermore, we may expand into markets in which we have less experience or incur higher costs. We expect to need to execute a number of tasks in a timely, efficient and successful manner in order to realize the benefits and cost savings of acquisitions, including retaining and assimilating key personnel, managing the regulatory and reimbursement approval processes, intellectual property protection strategies and commercialization activities, creating uniform standards, controls, procedures, policies and information systems, including with respect to disclosure controls and procedures and internal control over financial reporting, and meeting the challenges inherent in efficiently managing an increased number of employees potentially in different geographic locations, including the need to implement appropriate systems, policies, benefits and compliance programs. Acquisitions may subject us to other risks, including unanticipated costs and expenditures, potential changes in relationships with strategic partners, potential contractual or intellectual property issues, fluctuations in quarterly results and financial condition as a result of timing of acquisitions and potential accounting charges and write-downs,

and potential unknown liabilities associated with the strategic combination and the combined operations. Should we encounter difficulties in managing these tasks and risks, our growth strategy may suffer and our revenue and profitability could be adversely affected.

Intellectual property risks and third-party claims of infringement, misappropriation of proprietary rights or other claims against us could adversely affect our ability to market our products, require us to redesign our products or attempt to seek licenses from third parties, and materially adversely affect our operating results. In addition, the defense of such claims could result in significant costs and divert the attention of our management and other key employees.

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Companies in or related to our industry often aggressively protect and pursue their intellectual property rights. There are often intellectual property risks associated with developing and producing new products and entering new markets, and we may not be able to obtain, at reasonable cost or upon commercially reasonable terms, if at all, licenses to intellectual property of others that is alleged to be part of such new or existing products. From time to time, we have received, and may continue to receive, notices that claim we have infringed upon, misappropriated or misused other parties proprietary rights.

We have hired and will continue to hire individuals or contractors who have experience in medical diagnostics and these individuals or contractors may have confidential trade secret or proprietary information of third parties. We cannot assure you that these individuals or contractors will not use this third-party information in connection with performing services for us or otherwise reveal this third-party information to us. Thus, we could be sued for misappropriation of proprietary information and trade secrets. Such claims are expensive to defend and could divert our attention and result in substantial damage awards and injunctions that could have a material adverse effect on our business, financial condition or results of operations. In addition, to the extent that individuals or contractors apply technical or scientific information independently developed by them to our projects, disputes may arise as to the proprietary rights to such data and may result in litigation.

Moreover, in the past we have been engaged in litigation with parties that claim, among other matters, that we infringed their patents. The defense and prosecution of patent and trade secret claims are both costly and time consuming. We or our customers may be sued by other parties that claim that our products have infringed their patents or misappropriated their proprietary rights or that may seek to invalidate one or more of our patents. An adverse determination in any of these types of disputes could prevent us from manufacturing or selling some of our products, limit or restrict the type of work that employees involved with such products may perform for us, increase our costs of revenue and expose us to significant liability.

As a general matter, our involvement in litigation or in any claims to determine proprietary rights, as may arise from time to time, could materially and adversely affect our business, financial condition and results of operations for reasons such as:

- pending litigation may of itself cause our distributors or end-users to reduce purchases of our products;
- it may consume a substantial portion of our managerial and financial resources;
- its outcome would be uncertain and a court may find any third-party patent claims valid and infringed by our products (issuing a preliminary or permanent injunction) that would require us to withdraw or recall such products from the market, redesign such products offered for sale or under development or restrict employees from performing work in their areas of expertise;
- governmental agencies may commence investigations or criminal proceedings against our employees, former employees and us relating to claims of misappropriation or misuse of another party s proprietary rights;
- an adverse outcome could subject us to significant liability in the form of past royalty payments, penalties, special and punitive damages, the opposing party s attorney fees, and future royalty payments significantly affecting our future earnings; and
- failure to obtain a necessary license (upon commercially reasonable terms, if at all) upon an adverse outcome could prevent us from selling our current products or other products we may develop.

Even if licenses to intellectual property rights are available, they can be costly. We have entered into various licensing agreements, which largely require royalty payments based on specified product sales. Royalty expenses under these licensing agreements collectively totaled $7.8 million, $13.5 million and $10.5 million for the years ended December 31, 2010, 2009 and 2008, respectively. We believe we will continue to incur substantial royalty expenses relating to future sales of our products.

In addition to the foregoing, we may also be required to indemnify some customers, distributors and strategic partners under our agreements with such parties if a third party alleges or if a court finds that our products or activities have infringed upon, misappropriated or misused another person s proprietary rights. Further, our products may contain technology provided to us by other parties such as contractors, suppliers or customers. We may have little or no ability to determine in advance whether such technology infringes the intellectual property rights of a third party. Our contractors,

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suppliers and licensors may not be required or financially able to indemnify us in the event that a claim of infringement is asserted against us, or they may be required to indemnify us only up to a maximum amount, above which we would be responsible for any further costs or damages.

Our senior credit facility imposes restrictions on our operations and activities, limits the amount we can borrow, and requires us to comply with various financial covenants.

We currently have a $120.0 million senior secured syndicated credit facility, which matures on October 8, 2013. Our senior credit facility bears interest for base rate loans at a rate equal to (i) the higher of (a) the lender s prime rate and (b) the Federal funds rate plus one-half of one percent, plus (ii) the applicable rate or for Eurodollar rate loans the interest rate is equal to (i) the Eurodollar rate, plus (ii) the applicable rate. The applicable rate is generally determined in accordance with a performance pricing grid based on our leverage ratio and ranges from 0.50% to 1.75% for base rate loans and from 1.50% to 2.75% for Eurodollar rate loans. The current applicable rate is subject to adjustment, as described below. The agreement governing our senior credit facility includes certain customary limitations on our operations and activities, including among others: limitation on liens; limitation on mergers, consolidations and sales of assets; limitation on debt; limitation on dividends, stock redemptions and the redemption and/or prepayment of other debt; limitation on investments (including loans and advances) and acquisitions; limitation on transactions with affiliates; and limitation on annual capital expenditures. We are also subject to financial covenants which include a funded debt to EBITDA ratio (as defined in our senior credit facility, with adjusted EBITDA generally calculated as earnings before, among other adjustments, interest, taxes, depreciation and amortization) not to exceed 3:00 to 1:00 as of the end of each fiscal quarter, and an interest coverage ratio of not less than 3:50 to 1:00 as of the end of each fiscal quarter. If we fail to comply with these restrictions or covenants, our senior credit facility could become due and payable prior to maturity. As of December 31, 2010 we were in compliance with all financial covenants.

During the third quarter of 2010, our senior credit facility was amended to exclude the application of the funded debt to adjusted EBITDA ratio and interest coverage ratio for the measurement date occurring on December 31, 2010. The amendment also increased the applicable interest rate under the credit agreement by 50 basis points commencing on the date of the amendment and remaining effective until the first quarter of 2011 in which we are required to deliver our quarterly compliance certificate showing compliance with both financial covenants. If such compliance is demonstrated, the applicable rate will decrease by 50 basis points.

We may incur significant additional indebtedness. Our indebtedness could be costly or have adverse consequences.

We may incur significant additional indebtedness, subject to the restrictions in our senior credit facility (for which we may obtain waivers). As of December 31, 2010, we had $72.0 million outstanding under our $120.0 million senior credit facility. Our borrowing capacity can fluctuate from time to time due to, among other factors, our funded debt to adjusted EBITDA ratio as and when measured under the senior credit facility.

Our indebtedness could be costly or have adverse consequences, such as:

- requiring us to dedicate a substantial portion of our cash flows from operations to payments on our debt;
- limiting our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt obligations and other general corporate requirements;
- making us more vulnerable to adverse conditions in the general economy or our industry and to fluctuations in our operating results, including affecting our ability to comply with and maintain any financial tests and ratios required under our indebtedness;
- limiting our flexibility to engage in certain transactions or to plan for, or react to, changes in our business and the diagnostics industry;
- putting us at a disadvantage compared to competitors that have less relative and/or less restrictive debt; and
- subjecting us to additional restrictive financial and other covenants.

We may need to raise additional funds to finance our future capital or operating needs, which could have adverse consequences on our operations and the interests of our stockholders.

Seasonal fluctuations in our operating results could limit the cash we have available for research and development and other operating needs or cause us to fail to comply with the financial covenants in the documents governing our indebtedness. As a result, we may need to seek to raise funds through public or private debt or sale of equity to achieve our business strategy or to avoid non-compliance with our financial covenants. In addition, we may need funds to complete acquisitions, or may issue equity in connection with acquisitions. If we raise funds or acquire other technologies or businesses through issuance of equity, this could dilute the interests of our stockholders. Moreover, the availability of

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additional capital, whether debt or equity from private capital sources (including banks) or the public capital markets, fluctuates as our financial condition and industry or market conditions in general change. There may be times when the private capital markets and the public debt or equity markets lack sufficient liquidity or when our securities cannot be sold at attractive prices, in which case we would not be able to access capital from these sources on favorable terms, if at all. We can give no assurance as to the terms or availability of additional capital.

Volatility and disruption to the global capital and credit markets may adversely affect our results of operations and financial condition, as well as our ability to access credit and the financial soundness of our customers and suppliers.

(1,775)

Spin-Off of Kraft Foods Group, Inc.

89 (8,755) 4,308 (4,358)

Dividends paid on noncontrolling interest and other activities

(4) (4)

Balances at December 31, 2012						
$	$31,548	$10,457	$(2,633)	$(7,157)	$140	$32,355
Comprehensive earnings / (losses):						
Net earnings						
	568				6	574
Other comprehensive losses, net of income taxes						
				(721)	(7)	(728)
Exercise of stock options and issuance of other stock awards						
	(122)	(37)		203		44
Cash dividends declared ($0.13 per share)						
		(232)				(232)
Acquisitions of noncontrolling interest and other activities						
			5			5

Balances at March 31, 2013						
$	$31,426	$10,756	$(3,354)	$(6,954)	$144	$32,018

See accompanying notes to the condensed consolidated financial statements.

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Mondelēz International, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in millions of U.S. dollars)

(Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES		
Net earnings	$ 574	$ 819
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	266	357
Stock-based compensation expense	33	49
Deferred income tax provision / (benefit)	(104)	(96)
Gain on acquisition	(22)	
Asset impairments	14	56
Other non-cash expense, net	44	1
Change in assets and liabilities:		
Receivables, net	(315)	(747)
Inventories, net	(160)	(482)
Accounts payable	(246)	(184)
Other current assets	(85)	(42)
Other current liabilities	(366)	(651)
Change in pension and postretirement assets and liabilities, net	(18)	69
Net cash used in operating activities	(385)	(851)
CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES		
Capital expenditures	(235)	(335)
Acquisition, net of cash received	(119)	
Cash received from Kraft Foods Group related to the Spin-Off	55	
Other	1	91
Net cash used in investing activities	(298)	(244)
CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES		
Net (repayments) / issuance of short-term borrowings	(66)	3,134
Long-term debt proceeds	6	802
Long-term debt repaid	(752)	(2,639)
Dividends paid	(232)	(514)
Other	51	134
Net cash (used in) / provided by financing activities	(993)	917
Effect of exchange rate changes on cash and cash equivalents	(40)	56

Cash and cash equivalents:

Increase / (decrease)	(1,716)	(122)
Balance at beginning of period	4,475	1,974
Balance at end of period	$ 2,759	$ 1,852

See accompanying notes to the condensed consolidated financial statements.

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Mondelēz International, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Basis of Presentation

The condensed consolidated financial statements include Mondelēz International as well as our wholly owned and majority owned subsidiaries.

Our interim condensed consolidated financial statements are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been omitted. It is management s opinion that these financial statements include all normal and recurring adjustments necessary for a fair presentation of our financial position and operating results. Net revenues and net earnings for any interim period are not necessarily indicative of future or annual results.

The condensed consolidated balance sheet data as of December 31, 2012 were derived from audited financial statements, but do not include all disclosures required by U.S. GAAP. You should read these statements in conjunction with our consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2012.

Accounting Calendar Change:

In connection with moving toward a common consolidation date across the Company, in the first quarter of 2013, we changed the consolidation date for our Europe segment. Previously, this segment primarily reported results as of the last Saturday of each period. Subsequent to the change, our Europe segment reports results as of the last calendar day of the period. At this time, the majority of our operating subsidiaries report results as of the last calendar day of the period. A portion of our North American operating subsidiaries report results as of the last Saturday of the period. The change in the consolidation date for our Europe segment did not have a material impact on our financial results for the three months ended March 31, 2013.

Discontinued Operation:

On October 1, 2012, we completed the spin-off of our former North American grocery business, Kraft Foods Group, Inc. (Kraft Foods Group) by distributing 100% of the outstanding shares of common stock of Kraft Foods Group to holders of our Common Stock (the Spin-Off). We retained our global snacks business along with other food and beverage categories. The divested Kraft Foods Group is presented as a discontinued operation on the condensed consolidated statements of earnings for the three months ended March 31, 2012. The other comprehensive earnings and cash flows of Kraft Foods Group are included within our condensed consolidated statements of equity, comprehensive earnings and cash flows in the prior-year period through October 1, 2012. The results from the discontinued operation are discussed in additional detail in Note 2, *Divestitures and Acquisition*.

Segment Reorganization:

Effective January 1, 2013, we reorganized our operations, management and segments into five reportable segments:

- Latin America (formerly in our Developing Markets segment)
- Asia Pacific (formerly in our Developing Markets segment)
- Eastern Europe, Middle East & Africa (EEMEA) (formerly in our Developing Markets segment)
- Europe (now includes certain European operations formerly in our Developing Markets segment)
- North America.

We changed and flattened our operating structure to reflect our greater concentration of operations in high-growth emerging markets and to further enhance collaboration across regions, expedite decision making and drive greater efficiencies to fuel our growth. Coincident with the change in segment structure, segment operating income for our North America region also changed to include all U.S. pension plan expenses, a portion of which was previously excluded from segment operating results evaluated by management as the costs were centrally managed. As a result of implementing these changes this quarter, we have presented our segment results reflecting the changes for all periods presented.

Highly Inflationary Accounting:

On February 8, 2013, the Venezuelan government announced the devaluation of the official Venezuelan bolivar exchange rate from 4.30 bolivars to 6.30 bolivars to the U.S. dollar and the elimination of the second-tier, government-regulated SITME exchange rate previously applied to value certain types of transactions. In connection with the announced

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changes which were effective on February 13, 2013, we recorded a $54 million unfavorable foreign currency charge related to the devaluation of our net monetary assets in Venezuela in selling, general and administrative expenses within our Latin America segment in the three months ended March 31, 2013. We also incurred approximately $7 million of net unfavorable devaluation-related foreign currency impacts within our pretax earnings during the first quarter of 2013 related to translating the earnings of our Venezuelan subsidiary to the U.S. dollar at the new exchange rate.

We began accounting for the results of our Venezuelan subsidiaries in U.S. dollars on January 1, 2010, as prescribed under U.S. GAAP for highly inflationary economies. We use the official Venezuelan bolivar exchange rate to translate the results of our Venezuelan operations into U.S. dollars. During 2012, we recorded immaterial foreign currency impacts in connection with highly inflationary accounting for Venezuela.

New Accounting Pronouncements:

In February 2013, the Financial Accounting Standards Board (FASB) issued an accounting standards update, clarifying the reporting of significant reclassifications from components of accumulated other comprehensive income (AOCI) and the related impacts on primarily the statement of earnings. The guidance is effective for fiscal years and interim reporting periods beginning after December 15, 2012. We adopted the guidance effective January 1, 2013 and disclose reclassifications from accumulated other comprehensive income and their impact on our condensed consolidated financial statements in Note 13, *Reclassifications from Accumulated Other Comprehensive Income*.

In February 2013, the FASB issued an accounting standards update, clarifying how entities are required to measure obligations resulting from joint and several liability arrangements. The guidance is effective for us on January 1, 2014. We do not expect it to have a material effect on our consolidated financial results as our joint and several guarantee of indebtedness discussed in Note 12, *Commitments and Contingencies*, expires prior to the effective date. We have no other material arrangements that fall within the scope of the update at this time.

In March 2013, the FASB issued an accounting standards update on a parent company s accounting for the cumulative translation adjustment (CTA) upon derecognition of certain subsidiaries or groups of assets within a foreign entity or an investment in a foreign entity. The guidance is effective for us on January 1, 2014. We plan to comply with the new requirement in connection with future dispositions within the scope of the standard. Application of the standard will impact the net gain or loss recognized on future dispositions.

Subsequent Events:

We evaluated subsequent events and included all accounting and disclosure requirements related to material subsequent events in our condensed consolidated financial statements and related notes.

Note 2. Divestitures and Acquisition

On October 1, 2012, we completed the Spin-Off of our North American grocery business, Kraft Foods Group, to our shareholders. On October 1, 2012, each of our shareholders of record as of the close of business on September 19, 2012 (the Record Date), received one share of Kraft Foods Group common stock for every three shares of our Common Stock held as of the Record Date. The distribution was structured to be tax free to our U.S. shareholders for U.S. federal income tax purposes.

Kraft Foods Group is now an independent public company trading on The NASDAQ Global Select Market under the symbol KRFT. After the Spin-Off, we do not beneficially own any shares of Kraft Foods Group common stock.

Summary results of operations for Kraft Foods Group through March 31, 2012 were as follows:

	For the Three Months Ended March 31, 2012 (in millions)
Net revenues	$ 4,426

Earnings before income taxes	$	722
Provision for income taxes		242
Earnings from discontinued operations, net of income taxes	$	480

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The results of the Kraft Foods Group discontinued operation exclude certain corporate and business unit costs, which we allocated to Kraft Foods Group historically and which continued at Mondelēz International after the Spin-Off. These costs include primarily corporate overheads, information systems and sales force support. On a pre-tax basis, these costs were estimated to be $54 million for the three months ended March 31, 2012.

In March 2013, we collected $55 million from Kraft Foods Group related to the net cash settlement of stock awards held by our respective employees at the time of the Spin-Off.

Spin-Off Costs:

Our results include one-time Spin-Off transaction, transition and financing and related costs (Spin-Off Costs) we have incurred to date. We recorded Spin-Off Costs of $9 million in the three months ended March 31, 2013 and $173 million in the three months ended March 31, 2012. The Spin-Off Costs were recorded within pre-tax earnings as follows:

	For the Three Months Ended March 31,	
	2013	2012
	(in millions)	
Selling, general and administrative expenses	$ 9	$ 39
Interest and other expense, net		134
Spin-Off Costs	$ 9	$ 173

We expect to incur Spin-Off Costs of approximately $100 million in 2013 related primarily to human resource, customer service and logistics and information systems and processes as well as legal costs associated with revising intellectual property and other long-term agreements.

Acquisition, Other Divestitures and Sale of Property:

On February 22, 2013, we acquired the remaining interest in a biscuit operation in Morocco, which is now a wholly-owned subsidiary within our EEMEA segment. We paid cash consideration of $155 million, exclusive of $36 million of cash we acquired. Prior to the acquisition, our interest in the operation was accounted for under the equity method. As a result of obtaining a controlling interest, we consolidated the operation and recorded a preliminary estimate of the fair value of acquired assets (including estimated identifiable intangible assets of $80 million), the liabilities assumed and estimated goodwill of $180 million. We also recorded a pre-tax gain of $22 million related to the remeasurement of our previously-held equity interest in the operation to fair value in accordance with U.S. GAAP. Acquisition costs of $7 million were included within selling, general and administrative expenses and interest and other expense, net. The operating results of the acquisition were not material to our condensed consolidated financial statements as of and for the three months ended March 31, 2013.

During the three months ended December 31, 2012, we completed several divestitures within our Europe segment which generated cash proceeds of $200 million and pre-tax gains of $107 million. The divestitures primarily included a dinners and sauces grocery business in Germany and Belgium and a canned meat business in Italy. The aggregate operating results of these divestitures were not material to our condensed consolidated financial statements as of and for the three months ended March 31, 2012.

During the three months ended March 31, 2012, we also sold property located in Russia. The sale generated cash proceeds of $72 million, which was reflected in our cash flows from other investing activities. We also recorded a pre-tax gain of $55 million, which was recorded within selling, general and administrative expenses in our EEMEA segment.

Note 3. Inventories

Inventories at March 31, 2013 and December 31, 2012 were:

	March 31, 2013	December 31, 2012
	(in millions)	
Raw materials	$ 1,273	$ 1,213
Finished product	2,576	2,528
Inventories, net	$ 3,849	$ 3,741

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Note 4. Property, Plant and Equipment

Property, plant and equipment at March 31, 2013 and December 31, 2012 were:

	March 31, 2013	December 31, 2012
	(in millions)	
Land and land improvements	$ 633	$ 643
Buildings and building improvements	3,155	3,199
Machinery and equipment	11,870	11,992
Construction in progress	1,061	1,022
	16,719	16,856
Accumulated depreciation	(6,874)	(6,846)
Property, plant and equipment, net	$ 9,845	$ 10,010

During the three months ended March 31, 2013, we recorded $9 million of asset impairment charges related primarily to machinery and equipment disposed of under our 2012-2014 Restructuring Program discussed in Note 6, *2012-2014 Restructuring Program*.

Note 5. Goodwill and Intangible Assets

Goodwill by reportable segment at March 31, 2013 and December 31, 2012, revised to reflect our new segment structure, was:

	March 31, 2013	December 31, 2012
	(in millions)	
Latin America	$ 1,444	$ 1,413
Asia Pacific	2,734	2,738
EEMEA	2,860	2,767
Europe	9,421	9,777
North America	9,093	9,106
Goodwill	$ 25,552	$ 25,801

Intangible assets at March 31, 2013 and December 31, 2012 were:

	March 31, 2013	December 31, 2012
	(in millions)	
Non-amortizable intangible assets	$ 20,180	$ 20,408
Amortizable intangible assets	2,809	2,861
	22,989	23,269
Accumulated amortization	(759)	(717)

Intangible assets, net	$ 22,230	$ 22,552

Non-amortizable intangible assets consist substantially of brand names purchased through our acquisitions of Nabisco Holdings Corp., the Spanish and Portuguese operations of United Biscuits, the global *LU* biscuit business of Groupe Danone S.A. and Cadbury Limited. Amortizable intangible assets consist primarily of trademarks, customer-related intangibles, process technology, licenses and non-compete agreements. At March 31, 2013, the weighted-average life of our amortizable intangible assets was 13.2 years.

Amortization expense was $54 million for the three months ended March 31, 2013 and $56 million for the three months ended March 31, 2012. We currently estimate annual amortization expense for each of the next five years to be approximately $214 million. During the three months ended March 31, 2012, we recorded an impairment charge of $20 million within asset impairment and exit costs for the impairment of an intangible asset in Japan.

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Changes in goodwill and intangible assets consisted of:

	Goodwill	Intangible Assets, at Cost
	(in millions)	
Balance at January 1, 2013	$ 25,801	$ 23,269
Changes due to:		
Foreign currency	(425)	(360)
Acquisition	180	80
Other	(4)	
Balance at March 31, 2013	$ 25,552	$ 22,989

Refer to Note 2, *Divestitures and Acquisition*, for additional information related to the acquisition on February 22, 2013.

Note 6. 2012-2014 Restructuring Program

In 2012, our Board of Directors approved $1.5 billion of restructuring and related implementation costs (2012-2014 Restructuring Program) reflecting primarily severance, asset disposals and other manufacturing-related one-time costs. The primary objective of the restructuring and implementation activities was to ensure that both Mondelēz International and Kraft Foods Group were each set up to operate efficiently and execute on our respective business strategies upon separation and in the future.

Of the $1.5 billion of 2012-2014 Restructuring Program costs, we retained approximately $925 million of the 2012-2014 Restructuring Program expected costs. Since the inception of the 2012-2014 Restructuring Program, we have incurred $154 million of the estimated $925 million total 2012-2014 Restructuring Program charges.

Restructuring Costs:

We recorded restructuring charges of $40 million in the three months ended March 31, 2013 and $22 million in the three months ended March 31, 2012 within asset impairment and exit costs.

Liability activity for the 2012-2014 Restructuring Program for the three months ended March 31, 2013 was (in millions):

	Severance and related costs	Asset Write-downs	Total
		(in millions)	
Liability balance, January 1, 2013	$ 36	$	$ 36
Charges	31	9	40
Cash spent	(4)		(4)
Non-cash settlements		(9)	(9)
Liability balance, March 31, 2013	$ 63	$	$ 63

We spent $4 million in the three months ended March 31, 2013 in cash severance and related costs. We also recognized non-cash asset write-downs (including accelerated depreciation and asset impairments) totaling $9 million in the three months ended March 31, 2013. At March 31, 2013, a $63 million restructuring liability was recorded within other current liabilities.

Implementation Costs:

Implementation costs are directly attributable to restructuring activities; however, they do not qualify for special accounting treatment as exit or disposal activities. We believe the disclosure of implementation costs provides readers of our financial statements greater transparency to the total costs of our 2012-2014 Restructuring Program. We recorded implementation costs of $4 million in the three months ended March 31, 2013 and did not incur any charges in the three months ended March 31, 2012. We recorded these costs within cost of sales and selling, general and administrative expense within our Europe and North America segments. These costs primarily include reorganization costs to integrate and reorganize our operations and facilities, the discontinuance of certain product lines and the incremental expenses related to the closure of facilities, replicating our information systems infrastructure and reorganizing costs related to our sales function.

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Restructuring and Implementation Costs by Segment:

During the three months ended March 31, 2013 and 2012, we recorded restructuring and implementation costs within our consolidated segment operating income as follows:

	For the Three Months Ended March 31, 2013		
	Restructuring Costs	Implementation Costs	Total
		(in millions)	
Latin America	$	$	$
Asia Pacific			
EEMEA	1		1
Europe	19	2	21
North America	20	2	22
Total	$ 40	$ 4	$ 44

	For the Three Months Ended March 31, 2012		
	Restructuring Costs	Implementation Costs	Total
		(in millions)	
Latin America	$	$	$
Asia Pacific			
EEMEA			
Europe			
North America	22		22
Total	$ 22	$	$ 22

Note 7. Integration Program

As a result of our combination with Cadbury Limited (formerly, Cadbury plc or Cadbury) in 2010, we launched an integration program to realize expected annual cost savings of approximately $750 million by the end of 2013 and revenue synergies from investments in distribution, marketing and product development. In order to achieve these cost savings and synergies and combine and integrate the two businesses, we expect to incur total integration charges of approximately $1.5 billion through the end of 2013 (the Integration Program).

Integration Program costs include the costs associated with combining the Cadbury operations with our operations and are separate from the costs related to the acquisition. Since the inception of the Integration Program, we have incurred approximately $1.3 billion of the estimated $1.5 billion total integration charges.

Changes in the Integration Program liability during the three months ended March 31, 2013 were (in millions):

	2013
Balance at January 1	$ 202
Charges	21
Cash spent	(42)
Currency / other	(3)

Balance at March 31	$	178

We recorded Integration Program charges of $21 million during the three months ended March 31, 2013 and $43 million during the three months ended March 31, 2012. We recorded these charges in operations, as a part of selling, general and administrative expenses within our Europe, Asia Pacific, Latin America and EEMEA segments.

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Note 8. Debt

Borrowing Arrangements:

We maintain a revolving credit facility that we have historically used for general corporate purposes, including for working capital purposes and to support our commercial paper program. Our $4.5 billion four-year senior unsecured revolving credit facility expires in April 2015. On April 4, 2013, we amended a debt covenant in the credit facility agreement to reflect our new capital structure following the divestiture of Kraft Foods Group. We are now required to maintain a minimum total shareholders equity, excluding accumulated other comprehensive earnings / (losses), of at least $24.6 billion. At March 31, 2013, we met the covenant as our total shareholders equity, excluding accumulated other comprehensive earnings / (losses), was $35.2 billion. The revolving credit facility agreement also contains customary representations, covenants and events of default. However, there are no other financial covenants, credit rating triggers or provisions that could require us to post collateral as security. We intend to use the revolving credit facility for general corporate purposes, including for working capital purposes and to support our commercial paper program. As of March 31, 2013, no amounts were drawn on this credit facility.

Long-Term Debt:

On February 11, 2013, $750 million of our 6.0% notes matured. The notes and accrued interest to date were paid with cash on hand.

On January 10, 2012, we issued $800 million of floating rate notes which bear interest equal to the three-month London Interbank Offered Rate (LIBOR) plus 0.875%. We received net proceeds of $798.8 million from the issuance. On September 24, 2012, the notes were redeemed at a redemption price equal to 100% of the aggregate principal amount of the notes, or $800 million, plus accrued and unpaid interest of $2 million.

Fair Value of Our Debt:

The fair value of our short-term borrowings at March 31, 2013 and December 31, 2012 reflects current market interest rates and approximates the amounts we have recorded on our condensed consolidated balance sheet. The fair value of our long-term debt was determined using quoted prices in active markets for the publicly traded debt obligations (Level 1 valuation data). At March 31, 2013, the aggregate fair value of our total debt was $21,684 million and its carrying value was $18,501 million. At December 31, 2012, the aggregate fair value of our total debt was $22,946 million and its carrying value was $19,425 million.

Note 9. Financial Instruments

Derivative instruments were recorded at fair value in the condensed consolidated balance sheets as of March 31, 2013 and December 31, 2012 as follows:

	March 31, 2013		December 31, 2012	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
	(in millions)			
Derivatives designated as hedging instruments:				
Foreign exchange contracts	$ 11	$	$ 6	$ 10
Commodity contracts	2	19	3	34
Interest rate contracts	47		16	
	$ 60	$ 19	$ 25	$ 44
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	$ 37	$ 31	$ 16	$ 33
Commodity contracts	92	76	106	103
Interest rate contracts	82	54	93	61
	$ 211	$ 161	$ 215	$ 197

Total fair value	$ 271	$ 180	$ 240	$ 241

The fair value of our asset derivatives is recorded within other current assets and the fair value of our liability derivatives is recorded within other current liabilities. See our consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2012 for additional information on our risk management strategies and our use of and accounting for derivatives.

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The fair value (asset / (liability)) of our derivative instruments at March 31, 2013 was determined using:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
Foreign exchange contracts	$ 17	$	$ 17	$
Commodity contracts	(1)	(27)	26	
Interest rate contracts	75		75	
Total derivatives	$ 91	$ (27)	$ 118	$

The fair value (asset / (liability)) of our derivative instruments at December 31, 2012 was determined using:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
Foreign exchange contracts	$ (21)	$	$ (21)	$
Commodity contracts	(28)	(53)	25	
Interest rate contracts	48		48	
Total derivatives	$ (1)	$ (53)	$ 52	$

Level 2 financial assets and liabilities consist of commodity forwards and options; foreign exchange forwards and options; currency swaps and interest rate swaps. Commodity derivatives are valued using an income approach based on the observable market commodity index prices less the contract rate multiplied by the notional amount or based on pricing models that rely on market observable inputs such as commodity prices. Foreign currency contracts are valued using an income approach based on observable market forward rates less the contract rate multiplied by the notional amount. Our calculation of the fair value of interest rate swaps is derived from a discounted cash flow analysis based on the terms of the contract and the observable market interest rate curve. Our calculation of the fair value of financial instruments takes into consideration the risk of nonperformance, including counterparty credit risk.

Derivative Volume:

The net notional values of our derivative instruments as of March 31, 2013 and December 31, 2012 were:

	Notional Amount	
	March 31, 2013	December 31, 2012
	(in millions)	
Foreign exchange contracts:		
Intercompany loans and forecasted interest payments	$ 3,794	$ 3,743
Forecasted transactions	1,282	1,663

Commodity contracts		223	620
Interest rate contracts		2,210	2,259
Net investment hedge	euro notes	1,090	1,121
Net investment hedge	pound sterling notes	988	1,057

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Cash Flow Hedges:

Cash flow hedge activity, net of taxes, within accumulated other comprehensive earnings / (losses) included:

	For the Three Months Ended March 31,	
	2013	2012
	(in millions)	
Accumulated gain / (loss) at beginning of period	$ (38)	$ (297)
Transfer of realized losses / (gains) in fair value to earnings	17	64
Unrealized gain / (loss) in fair value	21	1
Discontinued operations		14
Accumulated gain / (loss) at March 31	$	$ (218)

After-tax gains / (losses) reclassified from accumulated other comprehensive earnings / (losses) into net earnings were:

		For the Three Months Ended March 31,	
		2013	2012
		(in millions)	
Foreign exchange contracts	forecasted transactions	$ (8)	$ 21
Commodity contracts		(9)	(2)
Interest rate contracts			(83)
Total		$ (17)	$ (64)

Within the interest rate contracts, in the three months ended March 31, 2012, we recognized a $130 million loss in interest and other expense, net, related to certain forward-starting interest rate swaps for which the planned timing of the related forecasted debt was changed in March 2012 in connection with our Spin-Off plans and related debt capitalization plan. Amounts excluded from effectiveness testing during the three months ended March 31, 2013 were not material.

After-tax gains / (losses) recognized in other comprehensive earnings / (losses) were:

		For the Three Months Ended March 31,	
		2013	2012
		(in millions)	
Foreign exchange contracts	intercompany loans	$	$
Foreign exchange contracts	forecasted transactions	6	(23)
Commodity contracts		(4)	(24)
Interest rate contracts		19	48
Total		$ 21	$ 1

Ineffectiveness for our cash flow hedges was not material for all periods presented. We record pre-tax (i) gains or losses reclassified from accumulated other comprehensive earnings / (losses) into earnings, (ii) gains or losses on ineffectiveness, and (iii) gains or losses on amounts excluded from effectiveness testing in:

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

We expect to transfer unrealized losses of $23 million (net of taxes) for commodity cash flow hedges, unrealized gains of $6 million (net of taxes) for foreign currency cash flow hedges and unrealized losses of $1 million (net of taxes) for interest rate cash flow hedges to earnings during the next 12 months.

Hedge Coverage:

As of March 31, 2013, we hedged transactions forecasted to impact cash flows over the following periods:

- commodity transactions for periods not exceeding the next 12 months;
- interest rate transactions for periods not exceeding the next 33 years and 11 months; and
- foreign currency transactions for periods not exceeding the next 8 months.

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Economic Hedges:

Pre-tax gains / (losses) recorded in net earnings for economic hedges which are not designated as hedging instruments were:

	For the Three Months Ended March 31,		Location of Gain / (Loss) Recognized in Earnings
	2013	2012	
	(in millions)		
Foreign exchange contracts:			
Intercompany loans and forecasted interest payments	$ 20	$ (29)	Interest expense
Forecasted purchases	(12)	8	Cost of sales
Forecasted transactions		(9)	Interest expense
Forecasted transactions	(1)		Selling, general and administrative expenses
Interest rate contracts	(2)		Interest expense
Commodity contracts	17	34	Cost of sales
Total	$ 22	$ 4	

Hedges of Net Investments in Foreign Operations:

After-tax gains / (losses) related to hedges of net investments in foreign operations in the form of euro and pound sterling-denominated debt were:

	For the Three Months Ended March 31,		Location of Gain / (Loss) Recorded in AOCI
	2013	2012	
	(in millions)		
Euro notes	$ 20	$ (49)	Currency Translation Adjustment
Pound sterling notes	44	(19)	Currency Translation Adjustment

Note 10. Benefit Plans

Pension Plans

Components of Net Periodic Pension Cost:

Net periodic pension cost for the three months ended March 31, 2013 and 2012 consisted of:

	U.S. Plans For the Three Months Ended March 31,		Non-U.S. Plans For the Three Months Ended March 31,	
	2013	2012	2013	2012

	(in millions)			
Service cost	$ 17	$ 44	$ 43	$ 45
Interest cost	15	89	89	109
Expected return on plan assets	(17)	(115)	(108)	(128)
Amortization:				
Net loss from experience differences	14	84	35	34
Prior service cost	1	2		1
Settlement losses	3	20		
Net pension costs related to discontinued operations		(80)		(9)
Net periodic pension cost	$ 33	$ 44	$ 59	$ 52

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Employer Contributions:

We make contributions to our U.S. and non-U.S. pension plans primarily to the extent that they are tax deductible and do not generate an excise tax liability. During the three months ended March 31, 2013, we contributed $1 million to our U.S. plans and $117 million to our non-U.S. Plans. Based on current tax law, we plan to make further contributions of approximately $7 million to our U.S. plans and approximately $192 million to our non-U.S. plans during the remainder of 2013. However, our actual contributions may differ due to many factors, including changes in tax and other benefit laws, or significant differences between expected and actual pension asset performance or interest rates.

Postretirement Benefit Plans

Net postretirement health care costs during the three months ended March 31, 2013 and 2012 consisted of:

	For the Three Months Ended March 31,	
	2013	2012
	(in millions)	
Service cost	$ 4	$ 11
Interest cost	5	40
Amortization:		
Net loss from experience differences	3	19
Prior service credit	(3)	(8)
Net postretirement health care costs related to discontinued operation		(44)
Net postretirement health care costs	$ 9	$ 18

Postemployment Benefit Plans

Net postemployment costs during the three months ended March 31, 2013 and 2012 consisted of:

	For the Three Months Ended March 31,	
	2013	2012
	(in millions)	
Service cost	$ 2	$ 3
Interest cost	1	2
Net postemployment costs related to discontinued operation		(1)
Net postemployment costs	$ 3	$ 4

Note 11. Stock Plans

Stock Options:

In February 2013, as part of our annual equity program, we granted 11.6 million stock options to eligible employees at an exercise price of $27.05 per share on the grant date. During the three months ended March 31, 2013, we issued 0.4 million of additional stock options with a weighted-average exercise price of $28.40 per share. In total, 12.0 million stock options were granted with a weighted-average exercise price of $27.10 per share. During the three months ended March 31, 2013, 2.7 million stock options, with an intrinsic value of $22.6 million, were also exercised.

Restricted and Deferred Stock:

In January 2013, in connection with our long-term incentive plan, we granted 1.5 million shares of restricted and deferred stock at a market value on the grant date of $26.24 per share. In February 2013, as part of our annual equity program, we issued 2.3 million shares of restricted and deferred stock to eligible employees at a market value on the grant date of $27.05 per share. During the three months ended March 31, 2013, we issued 1.0 million of additional restricted and deferred shares with a weighted-average market value on the grant date of $19.59 per share. Included in the 1.0 million of additional shares that were issued were 0.8 million awards related to long-term incentive plan awards granted in 2010 which were issued and vested during the first quarter of 2013. The 2010 long-term incentive plan awards had a weighted-average market value on the grant date of $17.97 per share. In total, 4.8 million restricted and deferred shares were issued with a weighted-average market value of $25.26 per share. During the three months ended March 31, 2013, 5.2 million shares of restricted and deferred stock vested with a market value on the vesting date of $140.0 million.

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Stock Repurchase Program:

On March 12, 2013, our Board of Directors authorized the repurchase of up to the lesser of 40 million shares or $1.2 billion of our Common Stock. The primary purpose of the program is to offset dilution from our equity compensation plans. Repurchases under the program are determined by management and are wholly discretionary. No shares were repurchased under this program during the three months ended March 31, 2013.

Note 12. Commitments and Contingencies

Legal Proceedings:

We routinely are involved in legal proceedings, claims, and governmental inspections or investigations (Legal Matters) arising in the ordinary course of our business.

A compliant and ethical corporate culture, which includes adhering to laws and industry regulations in all jurisdictions in which we do business, is integral to our success. Accordingly, after we acquired Cadbury in February 2010 we began reviewing and adjusting, as needed, Cadbury s operations in light of applicable standards as well as our policies and practices. We initially focused on such high priority areas as food safety, the Foreign Corrupt Practices Act (FCPA) and antitrust. Based upon Cadbury s pre-acquisition policies and compliance programs and our post-acquisition reviews, our preliminary findings indicated that Cadbury s overall state of compliance was sound. Nonetheless, through our reviews, we determined that in certain jurisdictions, including India, there appeared to be facts and circumstances warranting further investigation. We are continuing our investigations in certain jurisdictions, including in India, and we continue to cooperate with governmental authorities.

As we previously disclosed, on February 1, 2011, we received a subpoena from the SEC in connection with an investigation under the FCPA, primarily related to a facility in India that we acquired in the Cadbury acquisition. The subpoena primarily requests information regarding dealings with Indian governmental agencies and officials to obtain approvals related to the operation of that facility. We are cooperating with the U.S. and Indian governments in their investigations of these matters. In addition, on February 28, 2013, Cadbury India Limited, a subsidiary of Mondelēz International, and other parties received a show cause notice from the Indian Department of Central Excise Authority. The notice calls upon the parties to demonstrate why the Authority should not collect approximately $46 million of unpaid excise tax as well as approximately $46 million of penalties and interest related to production at the same Indian facility. We believe that the decision to claim the excise tax benefit is valid and we intend to contest the show cause notice through the judicial process.

As we previously disclosed, on March 1, 2011, the Starbucks Coffee Company (Starbucks) took control of the Starbucks packaged coffee business (Starbucks CPG business) in grocery stores and other channels. Starbucks did so without our authorization and in what we contend is a violation and breach of our license and supply agreement with Starbucks related to the Starbucks CPG business. The dispute is in arbitration in Chicago, Illinois. We are seeking appropriate remedies, including payment of the fair market value of the supply and license agreement, plus the premium this agreement specifies, prejudgment interest under New York law and attorney s fees. Starbucks has counterclaimed for damages. Testimony and post-hearing briefing in the arbitration proceeding are completed. We await the arbitrator s decision. Kraft Foods Group remains the named party in the proceeding. Under the Separation and Distribution Agreement between Kraft Foods Group and us, Kraft Foods Group will direct any recovery awarded in the arbitration proceeding to us. We will reimburse Kraft Foods Group for any costs and expenses it incurs in connection with the arbitration.

While we cannot predict with certainty the results of these or any other Legal Matters in which we are currently involved, we do not expect that the ultimate costs to resolve any of these Legal Matters, individually or in the aggregate, will have a material effect on our financial results.

Third-Party Guarantees:

We enter into third-party guarantees primarily to cover the long-term obligations of our vendors. As part of these transactions, we guarantee that third parties will make contractual payments or achieve performance measures. At March 31, 2013, we had no material third-party guarantees recorded on our condensed consolidated balance sheet.

As of March 31, 2013, we, two of our indirect wholly owned subsidiaries and one of Kraft Foods Group s subsidiaries are joint and several guarantors of $1.0 billion of indebtedness issued by an unrelated third party, Cadbury Schweppes U.S. Finance LLC, and maturing on October 1, 2013. We have agreed to indemnify Kraft Foods Group pursuant to a separation and distribution agreement, in the event its subsidiary is called upon to satisfy its obligation under the guarantee.

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Note 13. Reclassifications from Accumulated Other Comprehensive Income

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

	Currency Translation Adjustments	Pension and Other Benefits	Derivatives Accounted for as Hedges	Total
		(in millions)		
Balances at January 1, 2013	$ (366)	$ (2,229)	$ (38)	$ (2,633)
Other comprehensive earnings / (losses), before reclassifications:				
Currency translation adjustment[1]	(827)	63		(764)
Pension and other benefits		6		6
Derivatives accounted for as hedges			31	31
Amounts reclassified from accumulated other comprehensive income		53	23	76
Tax (expense) / benefit	(37)	(17)	(16)	(70)
Total other comprehensive losses				(721)
Balances at March 31, 2013	$ (1,230)	$ (2,124)	$	$ (3,354)

(1) The condensed consolidated statement of other comprehensive earnings includes $7 million of currency translation adjustment relating to noncontrolling interest.

Amounts reclassified from accumulated other comprehensive earnings / (losses) (AOCI) during the three months ended March 31, 2013 and their location in the condensed consolidated financial statements were as follows:

	Amounts reclassified out of AOCI into net earnings For the Three Months Ended March 31, 2013 (in millions)	Location of Gain / (Loss) Recognized in Earnings
Pension and other benefits:		
Reclassification adjustment for losses / (gains) included in net earnings due to:		
Amortization of experience losses and prior service costs	$ 24	Cost of Sales
Amortization of experience losses and prior service costs	26	Selling, general and
Settlement losses	3	administrative expenses
Tax (expense) / benefit	(17)	(Benefit) / provision for income taxes
Derivatives accounted for as hedges:		
Reclassification adjustment for losses / (gains) included in net earnings		
Foreign exchange contracts intercompany loans		Interest and other expense
Foreign exchange contracts forecasted transactions	10	Cost of sales
Commodity contracts	13	Cost of sales
Interest rate contracts		Interest and other expense
Tax (expense) / benefit	(6)	

		(Benefit) / provision for income taxes
Total reclassifications from AOCI	$	53

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Note 14. Income Taxes

Our effective tax rate was (3.4)% in the first quarter of 2013 reflecting an income tax benefit for the three months ended March 31, 2013. The 2013 effective tax rate reflects the impact of favorable discrete items, which totaled $125 million in the quarter. These favorable discrete items primarily resulted from net favorable tax audit settlements and expirations of the statutes of limitations in several jurisdictions of $80 million and corrections of prior-year amounts of $36 million.

Our effective tax rate was 18.5% in the first quarter of 2012. The 2012 effective tax rate was favorably impacted by net discrete items totaling $5 million, primarily from the expiration of the statutes of limitations in several jurisdictions, partially offset by net unfavorable tax audit settlements.

Note 15. Earnings Per Share

Basic and diluted earnings per share (EPS) were calculated using the following:

	For the Three Months Ended March 31,	
	2013	2012
	(in millions, except per share data)	
Earnings from continuing operations	$ 574	$ 339
Earnings and gain from discontinued operations, net of income taxes		480
Net earnings	574	819
Noncontrolling interest	6	6
Net earnings attributable to Mondelēz International	$ 568	$ 813
Weighted-average shares for basic EPS	1,784	1,773
Plus incremental shares from assumed conversions of stock options and long-term incentive plan shares	14	10
Weighted-average shares for diluted EPS	1,798	1,783
Basic earnings per share attributable to Mondelēz International:		
Continuing operations	$ 0.32	$ 0.19
Discontinued operations		0.27
Net earnings attributable to Mondelēz International	$ 0.32	$ 0.46
Diluted earnings per share attributable to Mondelēz International:		
Continuing operations	$ 0.32	$ 0.19
Discontinued operations		0.27
Net earnings attributable to Mondelēz International	$ 0.32	$ 0.46

We exclude antidilutive Mondelēz International stock options from our calculation of weighted-average shares for diluted EPS. We excluded 10.5 million antidilutive stock options for the three months ended March 31, 2013, and we excluded 6.0 million antidilutive stock options for the three months ended March 31, 2012.

Note 16. Segment Reporting

Effective January 1, 2013, we reorganized our operations, management and segments into five reportable segments:

Latin America (formerly in our Developing Markets segment)
Asia Pacific (formerly in our Developing Markets segment)
EEMEA (formerly in our Developing Markets segment)
Europe (now includes certain European operations formerly in our Developing Markets segment)
North America.

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We changed and flattened our operating structure to reflect our greater concentration of operations in high-growth emerging markets and to further enhance collaboration across regions, expedite decision making and drive greater efficiencies to fuel our growth. We have presented our segment results reflecting the changes for all periods presented.

We manage the operations of Latin America, Asia Pacific and EEMEA by location and Europe and North America by product category.

We use segment operating income to evaluate segment performance and allocate resources. We believe it is appropriate to disclose this measure to help investors analyze segment performance and trends. Coincident with the change in reportable segment structure, segment operating income for our North America region also changed to include all U.S. pension plan expenses, a portion of which was previously excluded from segment operating results evaluated by management as the costs were centrally managed. Segment operating income excludes unrealized gains and losses on hedging activities (which are a component of cost of sales), general corporate expenses (which are a component of selling, general and administrative expenses), amortization of intangibles, gains and losses on divestitures or acquisitions, and acquisition-related costs (which are a component of selling, general and administrative expenses) for all periods presented. We exclude the unrealized gains and losses on hedging activities from segment operating income in order to provide better transparency of our segment operating results. Once realized, the gains and losses on hedging activities are recorded within segment operating results. Furthermore, we centrally manage interest and other expense, net. Accordingly, we do not present these items by segment because they are excluded from the segment profitability measure that management reviews.

Our segment net revenues and earnings consisted of:

	For the Three Months Ended March 31,	
	2013	2012
	(in millions)	
Net revenues:		
Latin America	$ 1,398	$ 1,370
Asia Pacific	1,367	1,320
EEMEA	863	849
Europe	3,458	3,494
North America	1,658	1,634
Net revenues	$ 8,744	$ 8,667

	For the Three Months Ended March 31,	
	2013	2012
	(in millions)	
Earnings before income taxes:		
Operating income:		
Latin America	$ 92	$ 163
Asia Pacific	189	177
EEMEA	61	138
Europe	406	426
North America	170	148
Unrealized gains / (losses) on hedging activities	19	18
General corporate expenses	(69)	(111)
Amortization of intangibles	(54)	(56)
Gain on acquisition	22	
Acquisition-related costs	(2)	

Operating income	834	903
Interest and other expense, net	279	487
Earnings before income taxes	$ 555	$ 416

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Items impacting our segment operating results are discussed in Note 1, *Basis of Presentation,* including the Venezuelan currency devaluation, Note 2, *Divestitures and Acquisition*, Note 6, *2012-2014 Restructuring Program*, and Note 7, *Integration Program*.

Net changes in unrealized gains / (losses) on hedging activities were favorable, primarily related to gains on foreign currency contracts and commodity hedging activity of $19 million for the three months ended March 31, 2013, and were favorable due to gains of $18 million for the three months ended March 31, 2012.

Net revenues by consumer sector were:

	For the Three Months Ended March 31, 2013					
	Latin America	Asia Pacific	EEMEA	Europe	North America	Total
	(in millions)					
Biscuits	$ 290	$ 388	$ 151	$ 701	$ 1,293	$ 2,823
Chocolate	378	449	272	1,394	73	2,566
Gum & Candy	333	222	155	229	278	1,217
Beverages	243	127	236	805		1,411
Cheese & Grocery	154	181	49	329	14	727
Total net revenues	$ 1,398	$ 1,367	$ 863	$ 3,458	$ 1,658	$ 8,744

	For the Three Months Ended March 31, 2012					
	Latin America	Asia Pacific	EEMEA	Europe	North America	Total
	(in millions)					
Biscuits	$ 260	$ 360	$ 137	$ 658	$ 1,239	$ 2,654
Chocolate	382	453	267	1,336	76	2,514
Gum & Candy	334	219	162	252	305	1,272
Beverages	241	111	222	857		1,431
Cheese & Grocery	153	177	61	391	14	796
Total net revenues	$ 1,370	$ 1,320	$ 849	$ 3,494	$ 1,634	$ 8,667

Total assets by segment as of March 31, 2013 and December 31, 2012, as revised to reflect the January 1, 2013 segment reorganization, were:

	March 31, 2013	December 31, 2012
	(in millions)	
Total assets:		
Latin America	$ 7,425	$ 7,119
Asia Pacific	9,775	9,757
EEMEA	7,274	7,118
Europe	26,608	27,408
North America	21,950	22,106
Unallocated assets [(1)]	266	1,970
Total assets	$ 73,298	$ 75,478

(1) Unallocated assets consist primarily of cash and cash equivalents, deferred income taxes, centrally held property, plant and equipment, prepaid pension assets and derivative financial instrument balances. The decrease from December 31, 2012 primarily relates to a decrease in cash and cash equivalents related to the repayment of $750 million of debt and accrued interest and payment of $232 million in dividends during the quarter.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Description of the Company

We manufacture and market primarily snack food and beverage products, including biscuits, chocolate, gum & candy, beverages and various cheese & grocery products. We have operations in more than 80 countries and sell our products in approximately 165 countries.

On October 1, 2012, we completed the spin-off of our North American grocery business, Kraft Foods Group, Inc. (Kraft Foods Group), to our shareholders (the Spin-Off). We retained our global snacks business along with other food and beverage categories. The divested Kraft Foods Group is presented as a discontinued operation on the condensed consolidated statements of earnings for the three months ended March 31, 2012. The Kraft Foods Group equity transactions, other comprehensive earnings and cash flows are included within our condensed consolidated statements of equity, comprehensive earnings and cash flows through October 1, 2012. For more information on the Spin-Off and impact on our continuing results of operations, see Note 2, *Divestitures and Acquisition*.

Effective as of January 1, 2013, we reorganized our operations, management and segments into five reportable segments:

Latin America
Asia Pacific
Eastern Europe, Middle East & Africa (EEMEA)
Europe
North America

We changed and flattened our operating structure to reflect our greater concentration of operations in high-growth emerging markets and to further enhance collaboration across regions, expedite decision making and drive greater efficiencies to fuel our growth. Coincident with the change in segment structure, segment operating income for our North America region also changed to include all U.S. pension plan expenses, a portion of which was previously excluded from segment operating results evaluated by management as the costs were centrally managed. See Note 16, *Segment Reporting,* for additional segment information. Our segment results reflect our new segment structure for all periods presented.

Summary of Results and Other Highlights

Net revenues increased 0.9% to $8.7 billion in the first quarter of 2013 as compared to the same period in the prior year. Our reported net revenues were significantly impacted by unfavorable foreign currency, divestitures in the prior year, offset in part by the acquisition this quarter.

Organic Net Revenues increased 3.8% to $8.9 billion in the first quarter of 2013 as compared to the same period in the prior year. Organic Net Revenues is a non-GAAP financial measure we use to evaluate our underlying results (see the definition of Organic Net Revenues and our reconciliation with net revenues within *Non-GAAP Financial Measures* later in this section). Organic Net Revenues is on a constant currency basis and excludes the impact of divestitures and the acquisition this quarter.

Diluted EPS attributable to Mondelēz International decreased 30.4% to $0.32 in the first quarter of 2013 as compared to the same period in the prior year. Excluding the results of discontinued operations, our diluted EPS attributable to Mondelēz International from continuing operations increased 68.4% to $0.32 in the first quarter of 2013 as compared to the same period in the prior year. Included within our reported results were one-time Spin-Off Costs, 2012-2014 Restructuring Program costs, Integration Program costs, a gain on the acquisition this quarter and acquisition-related costs.

Operating EPS increased 9.7% to $0.34 in the first quarter of 2013 as compared to the same period in the prior year. Operating EPS is a non-GAAP financial measure we use to evaluate our underlying results (see the definition of Operating EPS and our reconciliation with Diluted EPS within *Non-GAAP Financial Measures* later in this section). Operating EPS provides transparency of our underlying results and excludes Spin-Off Costs, 2012-2014 Restructuring Program costs, Integration Program costs, net earnings from divestitures, the gain on the acquisition this quarter and acquisition-related costs.

On February 11, 2013, $750 million of our 6.00% notes matured and were paid from cash on hand.

In February 2013, we recorded a $54 million unfavorable foreign currency charge related to the devaluation of our net monetary assets in Venezuela. We also incurred approximately $7 million of net unfavorable devaluation-related foreign currency impacts within our pretax earnings during the first quarter of 2013 related to translating the earnings of our Venezuelan subsidiary to the U.S. dollar at the new exchange rate.

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Discussion and Analysis

Items Affecting Comparability of Financial Results

Spin-Off of Kraft Foods Group

On October 1, 2012, we completed the Spin-Off of Kraft Foods Group to our shareholders. The results of Kraft Foods Group are presented as a discontinued operation on the condensed consolidated statements of earnings for the three months ended March 31, 2012. Certain corporate and business unit costs, which we historically allocated to Kraft Foods Group and which continued at Mondelēz International following the Spin-Off, were included in our results from continuing operations. These costs include primarily corporate overheads, information systems and sales force support and, on a pre-tax basis, were estimated to be $54 million for the three months ended March 31, 2012.

Our results of continuing operations include one-time Spin-Off transaction, transition, financing and related costs (Spin-Off Costs) we have incurred to date. During the three months ended March 31, 2013, Spin-Off Costs were $9 million and had an immaterial impact on diluted EPS. During the three months ended March 31, 2012, Spin-Off Costs were $173 million and impacted diluted EPS by $0.06 per share. We expect to incur Spin-Off Costs of approximately $100 million in 2013 related primarily to human resource, customer service and logistics and information systems and processes as well as legal costs associated with revising intellectual property and other long-term agreements.

For additional information on the Spin-Off of Kraft Foods Group, see Note 2, *Divestitures and Acquisition*.

Acquisition, Other Divestitures and Sale of Property

On February 22, 2013, we acquired the remaining interest in a biscuit operation in Morocco, which is now a wholly-owned subsidiary within our EEMEA segment. We paid cash consideration of $155 million, exclusive of $36 million of cash we acquired. We also recorded a pre-tax gain of $22 million related to the remeasurement of our previously-held equity interest in the operation to fair value in accordance with U.S. GAAP. Acquisition costs of $7 million were included within selling, general and administrative expenses and interest and other expense, net. The operating results of the acquisition were not material to our consolidated financial operating results for the three months ended March 31, 2013.

During the three months ended December 31, 2012, we completed several divestitures within our Europe segment which generated cash proceeds of $200 million and pre-tax gains of $107 million. The divestitures primarily included a dinners and sauces grocery business in Germany and Belgium and a canned meat business in Italy. This quarter, we also entered into sales agreements to divest two businesses within our EEMEA segment. In order to evaluate our results from ongoing operations, we include these transactions in determining the impact from divestitures in evaluating our Non-GAAP financial measures. The aggregate operating results of the divestitures were not material to our consolidated financial operating results for the three months ended March 31, 2012.

During the three months ended March 31, 2012, we also sold property located in Russia. The sale generated cash proceeds of $72 million, which was reflected in our cash flows from other investing activities. We also recorded a pre-tax gain of $55 million, which was recorded within selling, general and administrative expenses in our EEMEA segment.

2012-2014 Restructuring Program

In 2012, our Board of Directors approved $1.5 billion of restructuring and related implementation costs (2012-2014 Restructuring Program) reflecting primarily severance, asset disposals and other manufacturing-related one-time costs. The primary objective of the restructuring and implementation activities is to ensure that both Mondelēz International and Kraft Foods Group were each set up to operate efficiently and execute on our respective business strategies upon separation and in the future.

Of the $1.5 billion of 2012-2014 Restructuring Program costs, we retained approximately $925 million of the 2012-2014 Restructuring Program expected costs. Since the inception of the 2012-2014 Restructuring Program, we have incurred $154 million of the estimated $925 million total 2012-2014 Restructuring Program charges.

We recorded restructuring charges of $40 million, or $0.02 per diluted share, for the three months ended March 31, 2013, and $22 million, or $0.01 per diluted share, for the three months ended March 31, 2012, within asset impairment and exit costs. We also incurred implementation costs of $4 million for the three months ended March 31, 2013 and did not incur any charges in the three months ended March 31, 2012. The implementation costs were recorded within cost of sales and selling, general and administrative expenses. See Note 6, *2012-2014 Restructuring Program*, for additional information.

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Integration Program

As a result of our combination with Cadbury Limited (formerly, Cadbury plc or Cadbury) in 2010, we launched an integration program to realize annual cost savings of approximately $750 million by the end of 2013 and revenue synergies from investments in distribution, marketing and product development. In order to achieve these cost savings and synergies and combine and integrate the two businesses, we expect to incur total integration charges of approximately $1.5 billion through the end of 2013 (the Integration Program).

Integration Program costs include the costs associated with combining the Cadbury operations with our operations and are separate from the costs related to the acquisition. Since the inception of the Integration Program, we have incurred approximately $1.3 billion of the estimated $1.5 billion total integration charges. In 2012, we met and exceeded our annual cost savings target of $750 million and achieved approximately $800 million of annual costs savings one year ahead of schedule.

We recorded Integration Program charges of $21 million, or $0.01 per diluted share, during the three months ended March 31, 2013 and $43 million, or $0.02 per diluted share, for the three months ended March 31, 2012. We recorded these charges in operations, as a part of selling, general and administrative expenses within our Europe, Asia Pacific, Latin America and EEMEA segments.

Provision for Income Taxes

Our effective tax rate was (3.4)% in the first quarter of 2013 reflecting an income tax benefit for the three months ended March 31, 2013. The 2013 effective tax rate reflects the impact of favorable discrete items, which totaled $125 million in the quarter. These favorable discrete items primarily resulted from net favorable tax audit settlements and expirations of the statutes of limitations in several jurisdictions of $80 million and corrections of prior-year amounts of $36 million.

Our effective tax rate was 18.5% in the first quarter of 2012. The 2012 effective tax rate was favorably impacted by net discrete items totaling $5 million, primarily from the expiration of the statutes of limitations in several jurisdictions, partially offset by net unfavorable tax audit settlements.

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Consolidated Results of Operations

The following discussion compares our consolidated results of operations for the three months ended March 31, 2013 and 2012.

Three Months Ended March 31:

	For the Three Months Ended March 31,			
	2013	2012	$ change	% change
	(in millions, except per share data)			
Net revenues	$ 8,744	$ 8,667	$ 77	0.9%
Operating income	$ 834	$ 903	$ (69)	(7.6%)
Net earnings attributable to Mondelēz International	$ 568	$ 813	$ (245)	(30.1%)
Diluted earnings per share attributable to Mondelēz International from continuing operations	$ 0.32	$ 0.19	$ 0.13	68.4%
Diluted earnings per share attributable to Mondelēz International	$ 0.32	$ 0.46	$ (0.14)	(30.4%)

Net Revenues Net revenues increased $77 million (0.9%) to $8,744 million in the first quarter of 2013, and Organic Net Revenues[1] increased $327 million (3.8%) to $8,910 million as follows:

Change in net revenues (by percentage point)	
Favorable volume/mix	2.5pp
Higher net pricing	1.3pp
Total change in Organic Net Revenues[1]	**3.8%**
Unfavorable foreign currency	(2.2)pp
Impact of divestitures[2]	(0.8)pp
Impact of acquisition	0.1pp
Total change in net revenues	**0.9%**

(1) Please see the *Non-GAAP Financial Measures* section at the end of this item.
(2) Includes divestitures and businesses for which we have entered into a sales agreement.

Organic Net Revenues growth was driven by favorable volume/mix and higher net pricing. Favorable volume/mix was driven primarily by higher shipments across all segments. Higher net pricing, primarily due to pricing actions taken last year, was realized in most segments, except Europe and EEMEA due to lower coffee prices. Unfavorable foreign currency decreased net revenues by $197 million, due primarily to the devaluation of the Venezuelan bolivar and the strength of the U.S. dollar relative to most foreign currencies, primarily the Brazilian real, Argentinean peso, Indian rupee, South African rand and British pound sterling, partially offset by the strength of the euro relative the U.S. dollar. The impact of divestitures resulted in a year-over-year decrease in net revenues of $65 million. The acquisition of a biscuit operation in Morocco added $12 million in net revenues this quarter.

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Operating Income Operating income decreased $69 million (7.6%) to $834 million in the first quarter of 2013, Adjusted Operating Income decreased $125 million (12.3%) to $895 million, and Adjusted Operating Income (on a constant currency basis)[1] decreased $41 million (4.0%) to $979 million due to the following:

	Operating Income (in millions)	Change (percentage point)
Operating Income for the Three Months Ended March 31, 2012	**$ 903**	
Integration Program	43	3.8pp
Spin-Off Costs	39	3.6pp
Spin-Off pension expense adjustment[2]	23	2.2pp
2012-2014 Restructuring Program	22	2.0pp
Operating income from divestitures	(10)	(0.9)pp
Adjusted Operating Income[1] for the Three Months Ended March 31, 2012	**$ 1,020**	
Favorable volume/mix	120	11.6pp
Higher net pricing	108	10.3pp
Higher input costs	(109)	(10.5)pp
Higher selling, general and administrative expenses	(133)	(12.8)pp
Gain on sale of property in 2012	(55)	(5.2)pp
Intangible asset impairment charge in 2012	20	1.8pp
Impact from acquisition	3	0.3pp
Change in unrealized gains / (losses) on hedging activities	1	0.1pp
Other, net	4	0.4pp
Total change in Adjusted Operating Income (constant currency)[1]	**(41)**	**(4.0%)**
Unfavorable foreign currency	(84)	(8.3)pp
Total change in Adjusted Operating Income[1]	**(125)**	**(12.3%)**
Adjusted Operating Income[1] for the Three Months Ended March 31, 2013	**$ 895**	
Integration Program	(21)	(2.0)pp
Spin-Off Costs	(9)	(0.8)pp
2012-2014 Restructuring Program	(44)	(4.5)pp
Gain on acquisition	22	2.2pp
Acquisition-related costs	(2)	(0.2)pp
Operating income from divestitures[3]	(7)	(0.7)pp
Operating Income for the Three Months Ended March 31, 2013	**$ 834**	**(7.6%)**

(1) Please see the *Non-GAAP Financial Measures* section at the end of this item.
(2) Represents the estimated benefit plan expense for the three months ended March 31, 2012 associated with certain benefit plan obligations transferred to Kraft Foods Group in the Spin-Off.
(3) Includes divestitures and businesses for which we have entered into a sales agreement.

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Favorable volume/mix was driven primarily by volume gains across all segments. During the quarter, increased input costs were essentially offset by higher net pricing, which primarily reflected pricing actions taken last year partially offset by lower coffee pricing. The increase in input costs was driven by higher raw material costs, in part due to higher foreign exchange realized losses, and higher manufacturing costs. Total selling, general and administrative expenses increased $140 million from the first quarter of 2012, due in part to a gain on a sale of property in 2012, a net unfavorable foreign currency impact due primarily to the devaluation of our net monetary assets in Venezuela, higher costs incurred for the 2012-2014 Restructuring program and the inclusion of the acquired biscuit operations in Morocco this quarter. These items were predominantly offset by lower Spin-Off Costs, lower Integration Program costs and the impact of businesses divested in 2012. Excluding these factors, selling, general and administrative expenses increased $133 million from the first quarter of 2012, driven primarily by higher overhead costs in Latin America, Asia Pacific and EEMEA as well as higher advertising and consumer promotion costs in Asia Pacific and EEMEA. Unfavorable foreign currency decreased operating income by $84 million, due primarily to the devaluation of our net monetary assets in Venezuela and the strength of the U.S. dollar relative to most foreign currencies, primarily the Brazilian real. In the first quarter of 2012, we divested property in Russia and recorded a pre-tax gain of $55 million. Within asset impairment and exit costs, we also recorded an asset impairment charge of $20 million related to a trademark in Japan in the first quarter of 2012.

As a result of the net effect of these drivers, operating income margin decreased, from 10.4% in the first quarter of 2012 to 9.5% in the first quarter of 2013. While gross margins were flat for the quarter, the decrease in operating margin was driven primarily by the impact from the 2012 gain on the sale of property in Russia, the unfavorable currency impact due to the devaluation of our net monetary assets in Venezuela and higher overheads, including investments in sales capabilities and route-to-market expansion in emerging markets. These factors were partially offset by lower Spin-Off costs, the gain on the acquisition in Morocco and lower Integration Program costs.

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Net Earnings and Diluted Earnings per Share Attributable to Mondelēz International Net earnings attributable to Mondelēz International of $568 million decreased by $245 million (30.1%) in the first quarter of 2013. Diluted EPS attributable to Mondelēz International was $0.32 in the first quarter of 2013, down $0.14 (30.4%) from the first quarter of 2012. Diluted EPS from continuing operations attributable to Mondelēz International was $0.32 in the first quarter of 2013, up $0.13 (68.4%) from the first quarter of 2012. Operating EPS[(1)] was $0.34 in the first quarter of 2013, up $0.03 (9.7%) from the first quarter of 2012. Operating EPS (on a constant currency basis)[(1)] was $0.38 in the first quarter of 2013, up $0.07 (22.6%) from the first quarter of 2012. These changes, shown net of tax below, were due to the following:

	Diluted EPS
Diluted EPS Attributable to Mondelēz International for the Three Months Ended March 31, 2012	**$ 0.46**
Discontinued Operations	0.27
Diluted EPS Attributable to Mondelēz International from Continuing Operations for the Three Months Ended March 31, 2012	**$ 0.19**
Spin-Off Costs[(2)]	0.06
Spin-Off pension expense adjustment[(3)]	0.01
Spin-Off interest expense adjustment[(4)]	0.03
2012-2014 Restructuring Program costs	0.01
Integration Program costs	0.02
Net earnings from divestitures[(5)]	(0.01)
Operating EPS for the Three Months Ended March 31, 2012[(1)]	**$ 0.31**
Decrease in operations	(0.01)
Gain on sale of property in 2012	(0.02)
Intangible asset impairment charge in 2012	0.01
Change in unrealized gains / (losses) on hedging activities	
Lower interest and other expense, net[(6)]	
Changes in income taxes	0.09
Operating EPS for the Three Months Ended March 31, 2013 (constant currency)[(1)]	**$ 0.38**
Unfavorable foreign currency	(0.04)
Operating EPS for the Three Months Ended March 31, 2013[(1)]	**$ 0.34**
Spin-Off Costs[(2)]	
2012-2014 Restructuring Program costs	(0.02)
Integration Program costs	(0.01)
Gain on acquisition	0.01
Acquisition-related costs	
Net earnings from divestitures[(5)]	
Diluted EPS Attributable to Mondelēz International for the Three Months Ended March 31, 2013	**$ 0.32**

(1) Please see the *Non-GAAP Financial Measures* section at the end of this item.

(2) Spin-Off Costs include $9 million of pre-tax Spin-Off Costs in selling, general and administrative expense for the three months ended March 31, 2013 and $39 million of pre-tax Spin-Off Costs in selling, general and administrative expense and $134 million of pre-tax Spin-Off Costs in interest expense for the three months ended March 31, 2012.

(3)

Represents the estimated benefit plan expense for the three months ended March 31, 2012 associated with certain benefit plan obligations transferred to Kraft Foods Group in the Spin-Off.

(4) Represents interest expense associated with the assumed reduction of $6 billion of our debt on January 1, 2012 from the utilization of funds received from Kraft Foods Group in 2012 in connection with our Spin-Off capitalization plan. Note during the year ended December 31, 2012, a portion of the $6 billion of debt was retired. As such, we adjusted interest expense during this period as if this debt had been paid on January 1, 2012 to ensure consistency of our assumption and related results.

(5) Includes divestitures and businesses for which we have entered into a sales agreement.

(6) Excludes the favorable foreign currency impact on interest expense related to our foreign denominated debt, the change in interest expense included in Spin-Off costs and the change in interest expense associated with the assumed reduction of $6 billion of our debt on January 1, 2012 from the utilization of funds received from the $6 billion of notes Kraft Foods Group issued directly and cash proceeds distributed to us in June 2012 in connection with our Spin-Off capitalization plan.

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Results of Operations by Reportable Segment

Effective January 1, 2013, we reorganized our operations and management into five reportable segments:

- Latin America
- Asia Pacific
- EEMEA
- Europe
- North America

We changed and flattened our operating structure to reflect our greater concentration of operations in high-growth emerging markets and to further enhance collaboration across regions, expedite decision making and drive greater efficiencies to fuel our growth. We have presented our segment results reflecting the changes for all periods presented.

We manage the operations of Latin America, Asia Pacific and EEMEA by location and Europe and North America by product category.

The following discussion compares the net revenues and earnings of each of our reportable segments for the three months ended March 31, 2013 and 2012.

	For the Three Months Ended March 31,	
	2013	2012
	(in millions)	
Net revenues:		
Latin America	$ 1,398	$ 1,370
Asia Pacific	1,367	1,320
EEMEA	863	849
Europe	3,458	3,494
North America	1,658	1,634
Net revenues	$ 8,744	$ 8,667

	For the Three Months Ended March 31,	
	2013	2012
	(in millions)	
Earnings before income taxes:		
Operating income:		
Latin America	$ 92	$ 163
Asia Pacific	189	177
EEMEA	61	138
Europe	406	426
North America	170	148
Unrealized gains / (losses) on hedging activities	19	18
General corporate expenses	(69)	(111)
Amortization of intangibles	(54)	(56)
Gains on acquisition	22	
Acquisition-related costs	(2)	
Operating income	834	903
Interest and other expense, net	279	487

Earnings before income taxes	$ 555	$ 416

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As discussed in Note 16, *Segment Reporting*, management uses segment operating income to evaluate segment performance and allocate resources. We believe it is appropriate to disclose this measure to help investors analyze segment performance and trends. Coincident with the change in reportable segment structure, segment operating income for our North America region also changed to include all U.S. pension plan expenses, a portion of which was previously excluded from segment operating results evaluated by management as the costs were centrally managed. Segment operating income excludes unrealized gains and losses on hedging activities (which are a component of cost of sales), general corporate expenses (which are a component of selling, general and administrative expenses), amortization of intangibles, gains and losses on divestitures and acquisitions, and acquisition-related costs (which are a component of selling, general and administrative expenses) for all periods presented. We exclude the unrealized gains and losses on hedging activities from segment operating income in order to provide better transparency of our segment operating results. Once realized, we record the gains and losses on hedging activities within segment operating results. We exclude general corporate expenses, amortization of intangibles, gains and losses on divestitures and acquisitions and acquisition-related costs from segment operating income in order to provide better transparency of our segment operating results.

In February 2013, the Venezuela government announced the devaluation of the official Venezuelan bolivar exchange rate from 4.30 bolivars to 6.30 bolivars to the U.S. dollar and the elimination of the second-tier, government-regulated SITME exchange rate previously applied to value certain types of transactions. In connection with the announced changes which were effective on February 13, 2013, we recorded a $54 million unfavorable foreign currency charge related to the devaluation of our net monetary assets in Venezuela in selling, general and administrative expenses within our Latin America segment in the three months ended March 31, 2013. We also incurred approximately $7 million of net unfavorable devaluation-related foreign currency impacts within our pretax earnings during the first quarter of 2013 related to translating the earnings of our Venezuelan subsidiary to the U.S. dollar at the new exchange rate.

In connection with our 2012-2014 Restructuring Program, we recorded restructuring charges of $40 million for the three months ended March 31, 2013 and $22 million for the three months ended March 31, 2012. We also recorded implementation costs of $4 million for the three months ended March 31, 2013. We recorded the restructuring charges in operations, as a part of asset impairment and exit costs, and recorded the implementation costs in operations, as a part of cost of sales and selling, general and administrative expenses. These charges are recorded primarily within our North America and Europe segments.

We recorded Integration Program charges of $21 million during the three months ended March 31, 2013 and $43 million for the three months ended March 31, 2012. We recorded these charges in operations, as a part of selling, general and administrative expenses within our Europe, Latin America, Asia Pacific and EEMEA segments.

In March 2012, we sold property located in Russia which generated cash proceeds of $72 million and we recorded a pre-tax gain of $55 million which was recorded within selling, general and administrative expenses in our EEMEA segment.

Net changes in unrealized gains / (losses) on hedging activities were favorable, primarily related to gains on foreign currency contracts and commodity hedging activity of $19 million for the three months ended March 31, 2013, and were favorable due to gains of $18 million for the three months ended March 31, 2012.

The decrease in general corporate expenses for the three months ended March 31, 2013 was due primarily to lower Spin-Off Costs within general corporate expenses, as we recorded $9 million of Spin-Off Costs in the three months ended March 31, 2013 as compared to $39 million in the three months ended March 31, 2012.

The decrease in interest and other expense, net for the three months ended March 31, 2013 was due primarily to lower Spin-Off Costs within interest expense, as we recorded $134 million of Spin-Off Costs within interest expense in the three months ended March 31, 2012.

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Latin America

	For the Three Months Ended March 31,			
	2013	2012	$ change	% change
	(in millions)			
Net revenues	$ 1,398	$ 1,370	$ 28	2.0%
Segment operating income	92	163	(71)	(43.6%)

Net revenues increased $28 million (2.0%), due to higher net pricing (9.4 pp) and favorable volume/mix (3.2 pp), partially offset by unfavorable foreign currency (10.6 pp). Higher net pricing was reflected primarily in Venezuela, Brazil, Argentina and Uruguay. Favorable volume/mix was driven primarily by Brazil, Mexico and Venezuela. Unfavorable foreign currency was due primarily to the Venezuelan bolivar devaluation and the strength of the U.S. dollar relative to the Brazilian real and Argentinean peso, partially offset by the strength of the Mexican peso relative to the U.S. dollar.

Segment operating income decreased $71 million (43.6%), due to unfavorable foreign currency including the impact from the devaluation of net monetary assets in Venezuela, higher manufacturing costs, higher raw material costs and higher other selling, general and administrative expenses, partially offset by higher net pricing, favorable volume/mix, lower advertising and consumer promotion costs and lower Integration Program costs.

Asia Pacific

	For the Three Months Ended March 31,			
	2013	2012	$ change	% change
	(in millions)			
Net revenues	$ 1,367	$ 1,320	$ 47	3.6%
Segment operating income	189	177	12	6.8%

Net revenues increased $47 million (3.6%), due to favorable volume/mix (4.1 pp) and higher net pricing (1.7 pp), partially offset by unfavorable foreign currency (2.2 pp). Favorable volume/mix was driven primarily by China, Philippines and Malaysia. Higher net pricing was reflected primarily in India, China, Philippines and Thailand. Unfavorable foreign currency was due primarily to the strength of the U.S. dollar relative to the Indian rupee and the Australian dollar.

Segment operating income increased $12 million (6.8%), due primarily to higher net pricing, a 2012 asset impairment charge related to a trademark in Japan, favorable volume/mix, lower manufacturing costs and lower Integration Program costs, partially offset by higher raw material costs, higher other selling, general and administrative expenses and higher advertising and consumer promotion costs.

EEMEA

	For the Three Months Ended March 31,			
	2013	2012	$ change	% change
	(in millions)			
Net revenues	$ 863	$ 849	$ 14	1.6%
Segment operating income	61	138	(77)	(55.8%)

Net revenues increased $14 million (1.6%), due to favorable volume/mix (7.4 pp) and the impact of the acquisition of a biscuit operation in Morocco (1.4 pp), partially offset by lower net pricing (3.4 pp), unfavorable foreign currency (3.3 pp) and the impact of divestitures (0.5 pp). Favorable volume/mix was driven primarily by Ukraine, Russia, Egypt and West Africa. Lower net pricing was reflected across most of the region, primarily in Russia, Ukraine and Gulf Cooperation Council (GCC) countries. Unfavorable foreign currency was due to the strength of

the U.S. dollar relative to most foreign currencies in the region, primarily the South African rand, Egyptian pound and Turkish lira. The acquisition in Morocco added $12 million in net revenues for the quarter.

Segment operating income decreased $77 million (55.8%), due primarily to the 2012 gain on the sale of property in Russia, lower net pricing, higher other selling, general and administrative expenses, higher advertising and consumer promotion costs and unfavorable foreign currency, partially offset by favorable volume/mix, lower raw material costs and lower manufacturing costs.

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Europe

	For the Three Months Ended March 31,			
	2013	2012	$ change	% change
	(in millions)			
Net revenues	$ 3,458	$ 3,494	$ (36)	(1.0%)
Segment operating income	406	426	(20)	(4.7%)

Net revenues decreased $36 million (1.0%), due to the impact of divestitures (1.4 pp) and lower pricing (1.2 pp), partially offset by favorable volume/mix (1.3 pp) and favorable foreign currency (0.3 pp). Favorable foreign currency primarily reflected the strength of the euro and Swedish krona relative to the U.S. dollar, mostly offset by the strength of the U.S. dollar relative to the British pound sterling. Lower net pricing was reflected primarily in coffee and cheese & grocery. Favorable volume/mix was driven by higher shipments in chocolate and biscuits, partially offset by lower shipments in gum & candy and cheese & grocery.

Segment operating income decreased $20 million (4.7%), due primarily to lower net pricing, costs incurred for the 2012-2014 Restructuring Program, higher other selling, general and administrative expenses and the impact of divestitures, partially offset by favorable volume/mix, lower raw material costs (primarily coffee) and lower Integration Program costs.

North America

	For the Three Months Ended March 31,			
	2013	2012	$ change	% change
	(in millions)			
Net revenues	$ 1,658	$ 1,634	$ 24	1.5%
Segment operating income	170	148	22	14.9%

Net revenues increased $24 million (1.5%), due to higher net pricing (1.5 pp) and favorable volume/mix (0.9 pp), partially offset by the impact of divestitures (0.8 pp) and unfavorable foreign currency (0.1 pp). Higher net pricing was reflected primarily in biscuits and chocolate, partially offset by lower net pricing in gum & candy. Favorable volume/mix was driven primarily by higher shipments in biscuits, partially offset by lower shipments in gum and chocolate.

Segment operating income increased $22 million (14.9%), due primarily to higher net pricing, lower pension expenses due to the transfer of certain benefit plan obligations to Kraft Foods Group in the Spin-Off and favorable volume/mix, partially offset by higher raw material costs, higher manufacturing costs and higher selling, general and administrative expenses (including advertising and consumer promotion costs).

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Liquidity and Capital Resources

We believe that cash from operations, our $4.5 billion revolving credit facility, our commercial paper program and our authorized long-term financing will provide sufficient liquidity to meet our working capital needs, planned capital expenditures, future contractual obligations and payment of our anticipated quarterly dividends. We continue to utilize our commercial paper program and primarily uncommitted international credit lines for regular funding requirements. We also use intercompany loans with foreign subsidiaries to improve financial flexibility. Overall, we do not expect any negative effects to our funding sources that would have a material effect on our liquidity, including the permanent reinvestment of our foreign earnings.

The cash flow activity of the Kraft Foods Group discontinued operation is included within our consolidated cash flow results for periods prior to the October 1, 2012 Spin-Off date. As such, Kraft Foods Group s cash flow results are included in the consolidated cash flow activity presented for the three months ended March 31, 2012.

Net Cash Used In Operating Activities:

During the first quarter of 2013, net cash used in operating activities was $385 million, compared with $851 million used in the first quarter of 2012. The decrease in cash used in operating cash flows primarily relates to lower working capital costs (mainly due to increased collection of receivables as well as a decrease in inventory levels due to the earlier Easter holiday in 2013), lower interest payments and increased earnings from our continuing operations.

Net Cash Used in Investing Activities:

During the first quarter of 2013, net cash used in investing activities was $298 million, compared with $244 million used in the first quarter of 2012. The increase in cash used in investing activities primarily relates to $119 million of cash paid, net of cash received, in connection with the acquisition of a biscuit operation in Morocco, which was partially offset by lower capital expenditures primarily due to the inclusion of Kraft Foods Group capital expenditures in 2012, and $55 million received from Kraft Foods Group during the first quarter of 2013 related to employee stock awards exchanged at the time of the Spin-Off.

Net Cash Provided by / Used in Financing Activities:

During the first quarter of 2013, net cash used in financing activities was $993 million, compared with $917 million provided in the first quarter of 2012. The change in cash flows from financing activities was primarily due to higher net proceeds from the issuance of short and long-term debt during the first quarter of 2012, partially offset by lower net repayments of primarily long-term debt in the first quarter of 2013 (both the issuance and repayments in the first quarter of 2012 were primarily driven by our Spin-Off capitalization plan), lower dividend payments in the first quarter of 2013 reflecting our new capital structure and dividend rate following the Spin-Off, and lower proceeds from stock option exercises in the first quarter of 2013.

Borrowing Arrangements:

We maintain a $4.5 billion four-year senior unsecured revolving credit facility agreement which expires in April 2015. On April 4, 2013, we amended a debt covenant in the credit facility agreement to reflect our new capital structure following the divestiture of Kraft Foods Group. We are now required to maintain a minimum total shareholders equity, excluding accumulated other comprehensive earnings / (losses), of at least $24.6 billion. At March 31, 2013, we met the covenant as our total shareholders equity, excluding accumulated other comprehensive earnings / (losses), was $35.2 billion. The revolving credit facility agreement also contains customary representations, covenants and events of default. However, there are no other financial covenants, credit rating triggers or provisions that could require us to post collateral as security. We intend to use the revolving credit facility for general corporate purposes, including for working capital purposes and to support our commercial paper program. As of March 31, 2013, no amounts were drawn on this credit facility.

Some of our international subsidiaries maintain primarily uncommitted credit lines to meet short-term working capital needs. Collectively, these credit lines amounted to $2.3 billion at March 31, 2013. In the aggregate, borrowings on these lines were $203 million at March 31, 2013 and $274 million at December 31, 2012.

Long-Term Debt:

On February 11, 2013 $750 million of our 6.00% notes matured. The notes and accrued interest to date were paid with cash on hand.

On January 10, 2012, we issued $800 million of floating rate notes which bear interest equal to the three-month LIBOR plus 0.875%. We received net proceeds of $798.8 million from the issuance. On September 24, 2012, the notes were redeemed at a redemption price equal to 100% of the aggregate principal amount of the notes, or $800 million, plus accrued and unpaid interest of $2 million.

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We expect to continue to comply with our long-term debt covenants. Refer to our Annual Report on Form 10-K for the year ended December 31, 2012 for further details of our debt covenants.

Total Debt:

Our total debt was $18.5 billion at March 31, 2013 and $19.4 billion at December 31, 2012. Our debt-to-capitalization ratio was 0.37 at March 31, 2013 and 0.38 at December 31, 2012. At March 31, 2013, the weighted-average term of our outstanding long-term debt was 9.0 years.

From time to time we refinance long-term and short-term debt. The nature and amount of our long-term and short-term debt and the proportionate amount of each will vary as a result of future business requirements, market conditions and other factors. As of March 31, 2013, we had $11.2 billion remaining in long-term financing authority from our Board of Directors.

In the next 12 months, $3.3 billion of long-term debt will mature as follows: $1.0 billion in May 2013, $1.8 billion in October 2013 and $500 million February 2014. We expect to fund these repayments with cash from operations, the issuance of commercial paper or the issuance of additional debt.

Commodity Trends

We purchase large quantities of commodities, including sugar and other sweeteners, coffee, cocoa, wheat, corn products, soybean and vegetable oils and dairy. In addition, we use significant quantities of packaging materials to package our products and natural gas, fuels and electricity for our factories and warehouses. We regularly monitor worldwide supply and cost trends of these commodities so we can act quickly to obtain ingredients and packaging needed for production.

During the first three months of 2013, our aggregate commodity costs increased over the comparable prior year period, primarily as a result of packaging material and grain and oil costs. We expect the price volatility and higher cost environment to continue over the remainder of the year. We address higher commodity costs primarily through higher pricing, lower manufacturing costs due to our end-to-end cost management program and overhead cost control. We expect to continue to use these measures to address further commodity cost increases.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

There were no material changes to our off-balance sheet arrangements and aggregate contractual obligations disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012. We also do not expect a material change in the effect these arrangements and obligations will have on our liquidity. See Note 12, *Commitments and Contingencies*, for a discussion of guarantees.

Equity and Dividends

Stock Plans:

See Note 11, *Stock Plans*, for more information on our stock plans and award activity for the three months ended March 31, 2013.

Dividends:

We paid dividends of $232 million in the first quarter of 2013 and $514 million in the first quarter of 2012. Following the Spin-Off of Kraft Foods Group, our expected annual dividend rate is $0.52 per common share. The declaration of dividends is subject to the discretion of our Board of Directors and depends on various factors, including our net earnings, financial condition, cash requirements, future prospects and other factors that our Board of Directors deems relevant to its analysis and decision making.

Stock Repurchase Program:

On March 12, 2013, our Board of Directors authorized the repurchase of up to the lesser of 40 million shares or $1.2 billion of our Common Stock. The primary purpose of the program will be to offset dilution from our equity compensation plans. Repurchases under the program are determined by management and are wholly discretionary. No shares were repurchased under this program during the three months ended March 31, 2013.

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Significant Accounting Estimates

We prepare our condensed consolidated financial statements in conformity with U.S. GAAP. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates and assumptions. Our significant accounting policies are described in Note 1 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012. Our significant accounting estimates are described in our Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2012. See Note 1, *Basis of Presentation*, for a discussion of the impact of new accounting standards. There were no changes in our accounting policies in the current period that had a material impact on our financial statements.

New Accounting Guidance

See Note 1, *Basis of Presentation*, for a discussion of new accounting guidance.

Contingencies

See Note 12, *Commitments and Contingencies*, and Part II, Item 1. *Legal Proceedings* for a discussion of contingencies.

Forward-Looking Statements

This report contains a number of forward-looking statements. Words, and variations of words, such as expect, plan, objective, outlook, intend will, further enhance, expedite, drive, focus, believe, estimate and similar expressions are intended to identify our forward-looking stat including but not limited to those related to the impacts of our segment reorganization, including growth prospects; our Spin-Off Costs; price volatility; cost environment; measures to address increased costs; raw material prices and supply; new laws and regulations; our Legal Matters; Cadbury synergies; 2012-2014 Restructuring Program costs; Integration Program costs; deferred tax assets; our accounting estimates; employee benefit plan net expenses, obligations and assumptions; pension expenses, contributions and assumptions; our liquidity, funding sources and uses of funding; capital expenditures and funding; financial and long-term debt covenants; debt repayment and funding; guarantees; our aggregate contractual obligations; dividends; our 2013 Outlook, in particular, 2013 Organic Net Revenue growth and Operating EPS; our stock repurchase program; and our risk management program, including the use of financial instruments for hedging activities.

These forward-looking statements involve risks and uncertainties, many of which are beyond our control. Important factors that could cause actual results to differ materially from those in our forward-looking statements include, but are not limited to, continued volatility of commodity and other input costs, pricing actions, increased competition, consolidation of large retail customers, risk of adverse changes in our supplier or customer base, our ability to innovate and differentiate our products, increased costs of sales, regulatory or legal restrictions, actions or delays, our ability to protect our intellectual property and intangible assets, a shift in our product mix to lower margin offerings, private label, perceived or actual product quality issues or product recalls, risks from operating globally, unanticipated disruptions to our business, continued consumer weakness, weakness in economic conditions, volatility of capital or other markets, risks related to use of information technologies, our labor force and tax law changes. For additional information on these and other factors that could affect our forward-looking statements, see our risk factors, as they may be amended from time to time, set forth in our filings with the SEC, including our most recently filed Annual Report on Form 10-K. We disclaim and do not undertake any obligation to update or revise any forward-looking statement in this report.

Outlook

We continue to expect our 2013 Organic Net Revenue growth to be at the low end of our long-term growth target of 5 to 7 percent. We are raising our 2013 Operating EPS outlook to $1.55 to $1.60 as we flow through a portion of the benefit from discrete tax items. Our operating EPS guidance is based on 2012 average currency rates and includes the estimated ($0.04) impact of the write-down of the net monetary assets and the translation of operating income for the company s Venezuelan business stemming from that government s decision to devalue its currency to a fixed rate of 6.30/$US on February 8, 2013.

We manage our growth and our business through a virtuous cycle. We take profits and reinvest savings to pursue additional targeted growth opportunities within our portfolio of power brands and priority markets.

See our *Non-GAAP Financial Measures* section for additional information on our non-GAAP financial measures, Organic Net Revenue and Operating EPS.

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Non-GAAP Financial Measures

We use non-GAAP financial information and believe it is useful to investors as it provides additional information to facilitate comparisons of historical operating results, identify trends in our underlying operating results and provide additional transparency on how we evaluate our business. We use certain non-GAAP financial measures to budget, make operating and strategic decisions and evaluate our performance. We disclose non-GAAP financial measures so that you have the same financial data that we use to assist you in making comparisons to our historical operating results and analyzing our underlying performance.

Our non-GAAP financial measures reflect how we evaluate our operating results currently. As new events or circumstances arise, these definitions could change over time:

Organic Net Revenues which is defined as net revenues excluding the impact of acquisitions, divestitures (including businesses under sale agreements), Integration Program costs, accounting calendar changes and foreign currency rate fluctuations.

Adjusted Operating Income which is defined as operating income excluding the impact of Spin-Off Costs, pension costs related to obligations transferred in the Spin-Off, the 2012-2014 Restructuring Program, the Integration Program, gains / losses on divestitures or acquisitions, acquisition-related costs, and the operating results of divestitures (including businesses under sale agreements). We also evaluate growth in our Adjusted Operating Income on a constant currency basis.

Operating EPS which is defined as diluted EPS attributable to Mondelēz International from continuing operations excluding the impact of Spin-Off Costs, pension costs related to the obligations transferred in the Spin-Off, the 2012-2014 Restructuring Program, the Integration Program, gains / losses on divestitures or acquisitions, acquisition-related costs, and net earnings from divestitures (including businesses under sale agreements), and including an interest expense adjustment related to the Spin-Off transaction . We also evaluate growth in our Operating EPS on a constant currency basis.

We believe that the presentation of these non-GAAP financial measures, when considered together with our U.S. GAAP financial measures and the reconciliations to the corresponding U.S. GAAP financial measures, provides you with a more complete understanding of the factors and trends affecting our business than could be obtained absent these disclosures. Because non-GAAP financial measures may vary among other companies, the non-GAAP financial measures presented in this report may not be comparable to similarly titled measures used by other companies. Our use of these non-GAAP financial measures is not meant to be considered in isolation or as a substitute for any U.S. GAAP financial measure. A limitation of these non-GAAP financial measures is they exclude items detailed below which have an impact on our U.S. GAAP reported results. The best way this limitation can be addressed is by evaluating our non-GAAP financial measures in combination with our U.S. GAAP reported results and carefully evaluating the following tables which reconcile U.S. GAAP reported figures to the non-GAAP financial measures in this Form 10-Q.

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Organic Net Revenues

Using the definition of Organic Net Revenues above, the only adjustments made to net revenues (the most comparable U.S. GAAP financial measure) were to exclude the impact of foreign currency, divestitures and acquisitions. We believe that Organic Net Revenues better reflects the underlying growth from the ongoing activities of our business and provides improved comparability of results.

	For the Three Months Ended March 31,			
	2013	2012	$ Change	% Change
	(in millions)			
Organic Net Revenues	**$ 8,910**	**$ 8,583**	**$ 327**	**3.8%**
Impact of foreign currency	(197)		(197)	(2.2)pp
Impact of divestitures[1]	19	84	(65)	(0.8)pp
Impact of acquisition	12		12	0.1pp
Net revenues	**$ 8,744**	**$ 8,667**	**$ 77**	**0.9%**

(1) Includes divestitures and businesses for which we have entered into a sales agreement.

Adjusted Operating Income

Using the definition of Adjusted Operating Income above, the only adjustments made to operating income (the most comparable U.S. GAAP financial measure) were to exclude Spin-Off Costs, pension costs related to obligations transferred in the Spin-Off, 2012-2014 Restructuring Program costs, Integration Program costs, gain on acquisition, acquisition-related costs and operating income from divestitures. We also evaluate Adjusted Operating Income on a constant currency basis. We believe that Adjusted Operating Income provides improved comparability of operating results.

	For the Three Months Ended March 31,			
	2013	2012	$ Change	% Change
	(in millions)			
Adjusted Operating Income (constant currency)	**$ 979**	**$ 1,020**	**$ (41)**	**(4.0)%**
Impact of foreign currency	(84)		(84)	(8.3)pp
Adjusted Operating Income	**$ 895**	**$ 1,020**	**$ (125)**	**(12.3)%**
Spin-Off costs	(9)	(39)	30	2.8pp
Spin-Off pension expense adjustment[1]		(23)	23	2.2pp
2012-2014 Restructuring Program	(44)	(22)	(22)	(2.5)pp
Integration Program	(21)	(43)	22	1.8pp
Gain on acquisition	22		22	2.2pp
Acquisition-related costs	(2)		(2)	(0.2)pp
Operating income from divestitures[2]	(7)	10	(17)	(1.6)pp
Operating income	**$ 834**	**$ 903**	**$ (69)**	**(7.6)%**

(1) Represents the estimated benefit plan expense for the three months ended March 31, 2012 associated with certain benefit plan obligations transferred to Kraft Foods Group in the Spin-Off.
(2) Includes divestitures and businesses for which we have entered into a sales agreement.

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Operating EPS

Using the definition of Operating EPS above, the only adjustments made to diluted EPS attributable to Mondelēz International from continuing operations (the most comparable U.S. GAAP financial measure) were to exclude Spin-Off Costs, pension costs related to obligations transferred in the Spin-Off, interest expense adjustment related to the Spin-Off transaction, 2012-2014 Restructuring Program costs, Integration Program costs, gain on acquisition, acquisition-related costs and net earnings from divestitures. We also evaluate Operating EPS on a constant currency basis. We believe Operating EPS provides improved comparability of operating results.

	For the Three Months Ended March 31,			
	2013	2012	$ Change	% Change
Operating EPS (constant currency)	**$ 0.38**	**$ 0.31**	**$ 0.07**	**22.6%**
Impact of foreign currency	(0.04)		(0.04)	
Operating EPS	**$ 0.34**	**$ 0.31**	**$ 0.03**	**9.7%**
Spin-Off Costs[1]		(0.06)	0.06	
Spin-Off pension expense adjustment[2]		(0.01)	0.01	
Spin-Off interest expense adjustment[3]		(0.03)	0.03	
2012-2014 Restructuring Program	(0.02)	(0.01)	(0.01)	
Integration Program	(0.01)	(0.02)	0.01	
Gain on acquisition	0.01		0.01	
Acquisition-related costs				
Net earnings from divestitures[4]		0.01	(0.01)	
Diluted EPS attributable to Mondelēz International from continuing operations	**$ 0.32**	**$ 0.19**	**$ 0.13**	**68.4%**
Discontinued operations		0.27	(0.27)	
Diluted EPS attributable to Mondelēz International	**$ 0.32**	**$ 0.46**	**$ (0.14)**	**(30.4)%**

(1) Spin-Off Costs include $9 million of pre-tax Spin-Off Costs in selling, general and administrative expense for the three months ended March 31, 2013 and $39 million of pre-tax Spin-Off Costs in selling, general and administrative expense and $134 million of pre-tax Spin-Off Costs in interest expense for the three months ended March 31, 2012.

(2) Represents the estimated benefit plan expense for the three months ended March 31, 2012 associated with certain benefit plan obligations transferred to Kraft Foods Group in the Spin-Off.

(3) Represents interest expense associated with the assumed reduction of $6 billion of our debt on January 1, 2012 from the utilization of funds received from Kraft Foods Group in 2012 in connection with our Spin-Off capitalization plan. Note during the year ended December 31, 2012, a portion of the $6 billion of debt was retired. As such, we adjusted interest expense during this period as if this debt had been paid on January 1, 2012 to ensure consistency of our assumption and related results.

(4) Includes divestitures and businesses for which we have entered into a sales agreement.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk.

As a global operation, we use certain financial instruments to manage our foreign currency exchange rate, commodity price and interest rate risks. We monitor and manage these exposures as part of our overall risk management program. Our risk management program focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on our operating results. We maintain foreign currency, commodity price and interest rate risk management policies that principally use derivative instruments to reduce significant, unanticipated earnings fluctuations that may arise from volatility in foreign currency exchange rates, commodity prices and interest rates. We also sell commodity futures to unprice future purchase commitments, and we occasionally use related futures to cross-hedge a commodity exposure. We are not a party to leveraged derivatives and, by policy, do not use financial instruments for speculative purposes. There were no significant changes in the types of derivative instruments we use to hedge our exposures since December 31, 2012. Refer to Note 9, *Financial Instruments*, for further information on our derivative activity during the first quarter of 2013 and the types of derivative instruments we used to hedge our exposures.

Item 4. Controls and Procedures.

a) Evaluation of Disclosure Controls and Procedures

Management, together with our CEO and CFO, evaluated the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rule 13a-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2013.

b) Changes in Internal Control Over Financial Reporting

Management, together with our CEO and CFO, evaluated the changes in our internal control over financial reporting during the quarter ended March 31, 2013. We determined that there were no changes in our internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

We routinely are involved in legal proceedings, claims and governmental inspections or investigations (Legal Matters) arising in the ordinary course of our business.

Information regarding Legal Matters is available in Note 12, *Commitments and Contingencies*, to the consolidated financial statements in this report and in the Legal Proceedings discussion in our Annual Report on Form 10-K for the year ended December 31, 2012.

While we cannot predict with certainty the results of any Legal Matters in which we are currently involved, we do not expect that the ultimate costs to resolve any of these Legal Matters individually and in the aggregate will have a material adverse effect on our financial results.

Item 1A. Risk Factors.

There were no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following activity represents shares tendered to us by employees who used shares to exercise options, and who used shares to pay the related taxes for grants of restricted and deferred stock that vested. Accordingly, these are non-cash transactions.

	Total Number of Shares	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Maximum Number of Shares that May Yet Be Purchased Under The Program (1)
January 1-31, 2013	9,800	$ 25.28		
February 1-28, 2013	648,976	27.01		
March 1-31, 2013	814,014	26.93		40,000,000
For the Quarter Ended March 31, 2013	1,472,790	26.96		40,000,000

(1) On March 13, 2013, we announced that on March 12, 2013, our Board of Directors authorized the repurchase of up to the lesser of 40 million shares or $1.2 billion of our Common Stock. The primary purpose of the program is to offset dilution from our equity compensation plans. Repurchases under the program are determined by management and are wholly discretionary. The authorization to repurchase shares under this program will end on March 12, 2016, unless it is terminated or extended by the Board of Directors. No shares were repurchased under this program during the three months ended March 31, 2013.

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Item 6. Exhibits.

Exhibit Number	Description
3.1	Articles of Restatement of the Amended and Restated Articles of Incorporation of Mondelēz International, Inc., effective March 14, 2013.
11	Computation of Per Share Earnings.*
12	Computation of Ratios of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following materials from Mondelēz International s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 are formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings, (ii) the Condensed Consolidated Statements of Equity, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Comprehensive Income, (vi) Notes to Condensed Consolidated Financial Statements, and (vii) document and entity information.

* Data required by Item 601(b)(11) of Regulation S-K is provided in Note 15 to the condensed consolidated financial statements in this Report.

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Signature

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

MONDELĒZ INTERNATIONAL, INC.

/s/ David A. Brearton
David A. Brearton
Executive Vice President and
Chief Financial Officer

May 8, 2013