KROGER CO
Form 10-Q/A
March 06, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended May 21, 2005

OR

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

For the transition period from ______ to ______

Commission file number 1-303

THE KROGER CO.

(Exact name of registrant as specified in its charter)

Ohio	**31-0345740**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1014 Vine Street, Cincinnati, OH 45202

(Address of principal executive offices)

(Zip Code)

(513) 762-4000

(Registrant s telephone number, including area code)

Unchanged

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨.

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

There were 723,983,634 shares of Common Stock ($1 par value) outstanding as of June 24, 2005.

EXPLANATORY NOTE:

This filing is made to restate the May 21, 2005 and January 29, 2005 balance sheets contained herein to correct errors in accumulated earnings and deferred income taxes related to the matters described in the January 29, 2005 Form 10-K/A Amendment No. 2.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

THE KROGER CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)

(unaudited)

	First Quarter Ended	
	May 21, 2005	May 22, 2004
Sales	$ 17,948	$ 16,905
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	13,442	12,523
Operating, general and administrative	3,296	3,209
Rent	203	212
Depreciation and amortization	389	372
Operating Profit	618	589
Interest expense	159	172
Earnings before income tax expense	459	417
Income tax expense	165	154
Net earnings	$ 294	$ 263
Net earnings per basic common share	$ 0.40	$ 0.35
Average number of common shares used in basic calculation	727	741
Net earnings per diluted common share	$ 0.40	$ 0.35
Average number of common shares used in diluted calculation	732	749

The accompanying notes are an integral part of the Consolidated Financial Statements.

THE KROGER CO.

CONSOLIDATED BALANCE SHEETS

(in millions, except per share amounts)

(unaudited)

	May 21, 2005 (as restated)	January 29, 2005 (as restated)
ASSETS		
Current assets		
Cash and temporary cash investments	$ 135	$ 144
Deposits in-transit	521	506
Receivables	616	661
Receivables - Taxes		167
FIFO Inventory	4,676	4,729
LIFO Credit	(384)	(373)
Prefunded employee benefits	36	300
Prepaid and other current assets	272	272
Total current assets	5,872	6,406
Property, plant and equipment, net	11,466	11,497
Goodwill	2,192	2,191
Other assets and investments	394	397
Total Assets	$ 19,924	$ 20,491
LIABILITIES		
Current liabilities		
Current portion of long-term debt, at face value, including obligations under capital leases and financing obligations	$ 71	$ 71
Accounts payable	3,445	3,598
Accrued salaries and wages	570	659
Deferred income taxes	286	286
Other current liabilities	1,676	1,721
Total current liabilities	6,048	6,335
Long-term debt including obligations under capital leases and financing obligations:		
Long-term debt, at face value, including obligations under capital leases and financing obligations	7,376	7,830
Adjustment to reflect fair value interest rate hedges (13)	57	70
Long-term debt including obligations under capital leases and financing obligations	7,433	7,900
Deferred income taxes	821	841
Other long-term liabilities	1,837	1,796
Total Liabilities	16,139	16,872
Commitments and Contingencies (Note 12)		
SHAREOWNERS EQUITY		
Preferred stock, $100 par, 5 shares authorized and unissued		

Common stock, $1 par, 1,000 shares authorized: 921 shares issued in 2005 and 918 shares issued in 2004	921	918
Additional paid-in capital	2,448	2,432
Accumulated other comprehensive loss	(201)	(202)
Accumulated earnings	3,914	3,620
Common stock in treasury, at cost, 198 shares in 2005 and 190 shares in 2004	(3,297)	(3,149)
Total Shareowners Equity	3,785	3,619
Total Liabilities and Shareowners Equity	$ 19,924	$ 20,491

The accompanying notes are an integral part of the Consolidated Financial Statements.

THE KROGER CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions and unaudited)

	Quarter Ended	
	May 21, **2005**	**May 22,** **2004**
Cash Flows From Operating Activities:		
Net earnings	$ 294	$ 263
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	389	372
LIFO charge	11	11
Deferred income taxes	(20)	46
Other	18	1
Changes in operating assets and liabilities net of effects from acquisitions of businesses:		
Inventories	53	(71)
Receivables	45	63
Deposits in-transit	(15)	86
Prepaid expenses	265	204
Accounts payable	(135)	82
Accrued expenses	(59)	(222)
Accrued income taxes	181	112
Contribution to company-sponsored pension plans	(89)	
Other	35	(6)
Net cash provided by operating activities	973	941
Cash Flows From Investing Activities:		
Capital expenditures, excluding acquisitions	(401)	(453)
Proceeds from sale of assets	28	14
Payments for acquisitions, net of cash acquired		(4)
Other	(4)	(4)
Net cash used by investing activities	(377)	(447)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	6	
Payments for long-term debt	(460)	(321)
Financing charges incurred		(4)
Increase (decrease) in book overdrafts	(20)	(79)
Proceeds from issuance of capital stock	22	15
Treasury stock purchases	(153)	(121)
Net cash used by financing activities	(605)	(510)
Net decrease in cash and temporary cash investments	(9)	(16)
Cash and temporary cash investments:		
Beginning of year	144	159
End of quarter	$ 135	$ 143
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 190	$ 215

Cash paid (refunded) during the year for income taxes	$	5	$	(7)
Non-cash changes related to purchase acquisitions:				
Fair value of assets acquired	$		$	3
Goodwill recorded	$		$	1

The accompanying notes are an integral part of the Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts are in millions except per share amounts.

Certain prior-year amounts have been reclassified to conform to current-year presentation.

1. ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying financial statements include the consolidated accounts of The Kroger Co. and its subsidiaries. The January 29, 2005 balance sheet was derived from audited financial statements and, due to its summary nature, does not include all disclosures required by generally accepted accounting principles (GAAP). Significant intercompany transactions and balances have been eliminated. References to the Company in these Consolidated Financial Statements mean the consolidated company.

In the opinion of management, the accompanying unaudited Consolidated Financial Statements include all normal, recurring adjustments that are necessary for a fair presentation of results of operations for such periods but should not be considered as indicative of results for a full year. The financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted, pursuant to SEC regulations. Accordingly, the accompanying consolidated financial statements should be read in conjunction with the fiscal 2004 Annual Report on Form 10-K of The Kroger Co. filed with the SEC on April 15, 2005, as amended.

The unaudited information included in the Consolidated Financial Statements for the first quarters ended May 21, 2005 and May 22, 2004 include the results of operations of the Company for the 16-week period then ended.

Store Closing and Other Expense Allowances

All closed store liabilities related to exit or disposal activities initiated after December 31, 2002, are accounted for in accordance with Statement on Financial Accounting Standards (SFAS) No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The Company provides for closed store liabilities relating to the present value of the estimated remaining noncancellable lease payments after the closing date, net of estimated subtenant income. The Company estimates the net lease liabilities using a discount rate to calculate the present value of the remaining net rent payments on closed stores. The closed store lease liabilities usually are paid over the lease terms associated with the closed stores, which generally have remaining terms ranging from one to 20 years. Adjustments to closed store liabilities primarily relate to changes in subtenant income and lease buyouts. Adjustments are made for changes in estimates in the period in which the change becomes known. Store closing liabilities are reviewed quarterly to ensure that any accrued amount that is not a sufficient estimate of future costs, or that no longer is needed for its originally intended purpose, is adjusted to income in the proper period.

Owned stores held for disposal are reduced to their estimated net realizable value. Costs to reduce the carrying values of property, equipment and leasehold improvements are accounted for in accordance with the Company s policy on impairment of long-lived assets. Inventory write-downs, if any, in connection with store closings, are classified in Merchandise costs. Costs to transfer inventory and equipment from closed stores are expensed as incurred.

The following table summarizes accrual activity for future lease obligations of stores closed in the normal course of business.

	Future Lease Obligations	
	2005	**2004**
Balance at beginning of year	$ 65	$ 35
Additions	5	14
Payments	(2)	(3)
Adjustments	(4)	(3)
Balances at First Quarter	$ 64	$ 43

In addition, the Company maintains a $56 liability for facility closure costs for locations closed in California prior to the Fred Meyer merger, a $14 liability relating to a charitable contribution required as a result of the Fred Meyer merger and a $11 liability for store closing costs related

to two distinct, formalized plans that coordinated the closing of several locations over relatively short periods of time in 2000 and 2001.

2. Restatement of Financial Statements

The Company has restated its May 31, 2005 and January 29, 2005 balance sheets contained herein to correct errors in accumulated earnings and deferred income taxes related to matters described in the January 29, 2005 Form 10-K/A Amendment No. 2. These adjustments caused deferred income tax liabilities to decrease and accumulated earnings to increase by $79 as of May 21, 2005 and January 29, 2005.

The following is a summary of the effects of the changes described above:

Consolidated Balance Sheets

May 21, 2005	As Previously Reported	Adjustments	As Restated
Deferred income taxes	$ 267	$ 19	$ 286
Total current liabilities	$ 6,029	$ 19	$ 6,048
Deferred income taxes	$ 919	$ (98)	$ 821
Total liabilities	$ 16,218	$ (79)	$ 16,139
Accumulated earnings	$ 3,835	$ 79	$ 3,914
Total shareowner s equity	$ 3,706	$ 79	$ 3,785

Fiscal Year 2004	As Previously Reported	Adjustments	As Restated
Deferred income taxes	$ 267	$ 19	$ 286
Total current liabilities	$ 6,316	$ 19	$ 6,335
Deferred income taxes	$ 939	$ (98)	$ 841
Total liabilities	$ 16,951	$ (79)	$ 16,872
Accumulated earnings	$ 3,541	$ 79	$ 3,620
Total shareowner s equity	$ 3,540	$ 79	$ 3,619

3. Stock Option Plans

The Company applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations to account for its stock option plans. The Company grants options for common stock at an option price equal to the fair market value of the stock at the date of the grant. Accordingly, the Company does not record stock-based compensation expense for these options. The Company also makes restricted stock awards. Compensation expense included in net earnings for restricted stock awards totaled approximately $2 and $3, after-tax, for the first quarter of 2005 and 2004, respectively. The Company s stock option plans are more fully described in the Company s fiscal 2004 Annual Report on Form 10-K.

The following table illustrates the effect on net earnings, net earnings per basic common share and net earnings per diluted common share as if compensation cost for all options had been determined based on the fair market value recognition provision of SFAS No. 123, Accounting for Stock-Based Compensation.

	First Quarter	
	2005	2004
Net earnings, as reported	$ 294	$ 263
Add: Stock-based compensation expense included in net earnings, net of income tax benefits	2	3
Subtract: Total stock-based compensation expense determined under fair value method for all awards, net of income tax benefits	(8)	(13)
Pro forma net earnings	$ 288	$ 253
Net earnings per basic common share, as reported	$ 0.40	$ 0.35
Pro forma earnings per basic common share	$ 0.40	$ 0.34
Net earnings per diluted common share, as reported	$ 0.40	$ 0.35
Pro forma earnings per diluted common share	$ 0.39	$ 0.34

To calculate pro forma stock-based compensation, the Company estimated the fair value of each option grant, on the date of the grant, using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2005 and 2004.

	2005	2004
Weighted average expected volatility (based on historical volatility)	30.83%	30.13%
Weighted average risk-free interest rate	4.11%	3.99%
Expected term (based on historical results)	8.7 years	8.7 years

The weighted average fair value of options granted during 2005 and 2004 was $7.64 and $7.91 respectively. The Company uses a risk-free interest rate based upon the yield of a treasury note maturing at a date that approximates the option s expected term.

4. Debt Obligations

Long-term debt consists of:

	May 21, 2005	January 29, 2005
Credit Facility and Commercial Paper borrowings	$ 266	$ 694
4.95% to 8.92% Senior Notes and Debentures due through 2031	6,391	6,391
5.00% to 10.23% mortgages due in varying amounts through 2017	217	218
Other	191	202
Total debt, excluding capital leases and financing obligations	7,065	7,505
Less current portion	(46)	(46)
Total long-term debt, excluding capital leases and financing obligations	$ 7,019	$ 7,459

5. Goodwill, Net

The following table summarizes the changes in the Company s net goodwill balance:

Balance at January 29, 2005	$ 2,191

Goodwill recorded	
Purchase accounting adjustments in accordance with SFAS No. 141	1
Balance at May 21, 2005	$ 2,192

6. Comprehensive Income

Comprehensive income is as follows:

	First Quarter Ended	
	May 21, 2005	**May 22, 2004**
Net earnings	$ 294	$ 263
Unrealized gain (loss) on hedging activities, net of tax[1]	1	
Comprehensive income	$ 295	$ 263

[1] Amount is net of tax of $1 for the first quarter of 2005.

During 2005, other comprehensive income consisted of reclassifications of previously deferred losses on cash flow hedges into net earnings as well as market value adjustments to reflect cash flow hedges at fair value as of the respective balance sheet dates.

7. Benefit Plans

The following table provides the components of net periodic benefit costs for the Company-sponsored pension plans and other post-retirement benefits for the first quarters of 2005 and 2004:

	Pension Benefits		Other Benefits	
	2005	**2004**	**2005**	**2004**
Components of net periodic benefit cost:				
Service cost	$ 38	$ 34	$ 3	$ 3
Interest cost	37	35	6	7
Expected return on plan assets	(39)	(38)		
Amortization of:				
Transition asset				
Prior service cost	2	(2)	(2)	(2)
Actuarial (gain) loss	8	3		
Net periodic benefit cost	$ 46	$ 32	$ 7	$ 8

In addition to the $89 contributed to the Company-sponsored pension plans in the first quarter of 2005, the Company is required to make cash contributions totaling $53 during the balance of fiscal 2005. The Company may elect to make additional contributions during 2005 in order to maintain its desired funding status.

The Company also contributes to various multi-employer pension plans based on obligations arising from most of its collective bargaining agreements. These plans provide retirement benefits to participants based on their service to contributing employers. The Company recognizes expense in connection with these plans as contributions are funded, or as and if withdrawal liability is incurred, in accordance with GAAP.

8. Income Taxes

The effective income tax rate was 35.9% for the first quarter of 2005 and 36.9% for the first quarter of 2004. In addition to the effect of state taxes, the effective income tax rate differed from the federal statutory rate due to a reduction of previously recorded tax contingency allowances resulting from a revision of the required allowances based on resolutions with tax authorities during the quarter.

9. Earnings Per Common Share

Earnings per basic common share equals net earnings divided by the weighted average number of common shares outstanding. Earnings per diluted common share equals net earnings divided by the weighted average number of common shares outstanding, after giving effect to dilutive stock options, restricted stock and warrants.

The following table provides a reconciliation of earnings before the cumulative effect of an accounting change and shares used in calculating earnings per basic common share to those used in calculating earnings per diluted common share:

	First Quarter Ended May 21, 2005			First Quarter Ended May 22, 2004		
	Earnings (Numerator)	**Shares (Denominator)**	**Per Share Amount**	**Earnings (Numerator)**	**Shares (Denominator)**	**Per Share Amount**
Earnings per basic common share	$ 294	727	$ 0.40	$ 263	741	$ 0.35
Dilutive effect of stock options and warrants		5			8	
Earnings per diluted common share	$ 294	732	$ 0.40	$ 263	749	$ 0.35

The Company had options outstanding for approximately 39 shares and 27 shares during the first quarters of 2005 and 2004, respectively, that were excluded from the computations of earnings per diluted common share because their inclusion would have had an anti-dilutive effect on earnings per share.

10. Recently Issued Accounting Standards

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS No. 123R), which replaces SFAS No. 123, supersedes APB No. 25 and related interpretations and amends SFAS No. 95 Statement of Cash Flows. The provisions of SFAS No. 123R are similar to those of SFAS No. 123; however, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements as compensation cost based on their fair value on the date of grant. Fair value of share-based awards will be determined using option pricing models (e.g. Black-Scholes or binomial models) and assumptions that appropriately reflect the specific circumstances of the awards.

Prior to the adoption of SFAS No. 123R, the Company is accounting for share-based compensation expense under the recognition and measurement provisions of APB No. 25, Accounting for Stock Issued to Employees and is following the accepted practice of recognizing share-based compensation expense over the explicit vesting period. SFAS No. 123R will require the immediate recognition at the grant date of the full share-based compensation expense for grants to retirement eligible employees, as the explicit vesting period is non-substantive. The estimated effect of applying the explicit vesting period approach versus the non-substantive approach is not material to any period presented. The Company expects to adopt SFAS No. 123R in the first quarter of fiscal 2006 and expects the adoption to reduce net earnings by $0.04-$0.06 per diluted share during fiscal 2006.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43 Chapter 4 which clarifies that inventory costs that are abnormal are required to be charged to expense as incurred as opposed to being capitalized into inventory as a product cost. SFAS No. 151 provides examples of abnormal costs to included costs of idle facilities, excess freight and handling costs and spoilage. SFAS No. 151 will become effective for the Company s fiscal year beginning January 29, 2006. The adoption of SFAS No. 151 is not expected to have a material effect on the Company s Consolidated Financial Statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. SFAS No. 154 further requires a change in depreciation, amortization or depletion method for long-live, non-financial assets to be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS No. 154 will become effective for the Company s fiscal year beginning January 29, 2006.

FASB Interpretation No. 47 (FIN 47) Accounting for Conditional Asset Retirement Obligations was issued by the FASB in March 2005. FIN 47 provides guidance relating to the identification of and financial reporting for legal obligations to perform an asset retirement activity. The Interpretation requires recognition of a liability for the fair value of a conditional asset retirement obligation when incurred if the liability s fair value can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN 47 is not expected to have a material effect on the Company s Consolidated Financial Statements.

11. Guarantor Subsidiaries

The Company s outstanding public debt (the Guaranteed Notes) is jointly and severally, fully and unconditionally guaranteed by The Kroger Co. and certain of its subsidiaries (the Guarantor Subsidiaries). At May 21, 2005, a total of approximately $6.3 billion of Guaranteed Notes were outstanding. The Guarantor Subsidiaries and non-guarantor subsidiaries are direct or indirect wholly owned subsidiaries of The Kroger Co. Separate financial statements of The Kroger Co. and each of the Guarantor Subsidiaries are not presented because the guarantees are full and unconditional and the Guarantor Subsidiaries are jointly and severally liable. The Company believes that separate financial statements and other disclosures concerning the Guarantor Subsidiaries would not be material to investors.

The non-guaranteeing subsidiaries represented less than 3% on an individual and aggregate basis of consolidated assets, pre-tax earnings, cash flow and equity. Therefore, the non-guarantor subsidiaries information is not separately presented in the tables below.

There are no current restrictions on the ability of the Guarantor Subsidiaries to make payments under the guarantees referred to above. The obligations of each guarantor under its guarantee are limited to the maximum amount permitted under Bankruptcy Law, the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act, or any similar Federal or state law (e.g. laws requiring adequate capital to pay dividends) respecting fraudulent conveyance or fraudulent transfer.

The following tables present summarized financial information as of May 21, 2005, and January 29, 2005, and for the first quarters ended May 21, 2005 and May 22, 2004. As described in Note 2, certain amounts have been restated.

Condensed Consolidating

Balance Sheets

As of May 21, 2005

(as restated)

	The Kroger Co.	Guarantor Subsidiaries	Eliminations	Consolidated
Current assets				
Cash, including temporary cash investments	$ 26	$ 109	$	$ 135
Deposits in-transit	58	463		521
Accounts receivable	506	612	(502)	616
Net inventories	440	3,852		4,292
Prepaid and other current assets	104	204		308
Total current assets	1,134	5,240	(502)	5,872
Property, plant and equipment, net	1,464	10,002		11,466
Goodwill	56	2,136		2,192
Other assets and investments		394		394
Investment in and advances to subsidiaries	9,168		(9,168)	
Total assets	$ 11,822	$ 17,772	$ (9,670)	$ 19,924
Current liabilities				
Current portion of long-term debt including obligations under capital leases and financing obligations	$ 71	$	$	$ 71
Accounts payable	224	3,723	(502)	3,445
Other current liabilities	276	2,256		2,532
Total current liabilities	571	5,979	(502)	6,048
Long-term debt including obligations under capital leases and financing obligations				
Face value long-term debt including obligations under capital leases and financing obligations	7,344	32		7,376
Adjustment to reflect fair value interest rate hedges	57			57
Long-term debt including obligations under capital leases and financing obligations	7,401	32		7,433
Other long-term liabilities	65	2,593		2,658
Total liabilities	8,037	8,604	(502)	16,139
Shareowners Equity	3,785	9,168	(9,168)	3,785
Total liabilities and shareowners equity	$ 11,822	$ 17,772	$ (9,670)	$ 19,924

Condensed Consolidating

Balance Sheets

As of January 29, 2005

(as restated)

	The Kroger Co.	Guarantor Subsidiaries	Eliminations	Consolidated
Current assets				
Cash, including temporary cash investments	$ 32	$ 112		$ 144
Deposits in-transit	20	486		506
Accounts receivable	583	747	(502)	828
Net inventories	415	3,941		4,356
Prepaid and other current assets	275	297		572
Total current assets	1,325	5,583	(502)	6,406
Property, plant and equipment, net	1,277	10,220		11,497
Goodwill	20	2,171		2,191
Other assets and investments	642	(245)		397
Investment in and advances to subsidiaries	10,668		(10,668)	
Total assets	$ 13,932	$ 17,729	$ (11,170)	$ 20,491
Current liabilities				
Current portion of long-term debt including obligations under capital leases and financing obligations	$ 71	$	$	$ 71
Accounts payable	188	3,912	(502)	3,598
Other current liabilities	319	2,347		2,666
Total current liabilities	578	6,259	(502)	6,335
Long-term debt including obligations under capital leases and financing obligations				
Face value long-term debt including obligations under capital leases and financing obligations	7,797	33		7,830
Adjustment to reflect fair value interest rate hedges	70			70
Long-term debt including obligations under capital leases and financing obligations	7,867	33		7,900
Other long-term liabilities	1,868	769		2,637
Total liabilities	10,313	7,061	(502)	16,872
Shareowners Equity	3,619	10,668	(10,668)	3,619
Total liabilities and shareowners equity	$ 13,932	$ 17,729	$ (11,170)	$ 20,491

Condensed Consolidating

Statements of Operations

For the Quarter Ended May 21, 2005

	The Kroger Co.	Guarantor Subsidiaries	Eliminations	Consolidated
Sales	$ 2,530	$ 15,705	$ (287)	$ 17,948
Merchandise costs, including warehousing and transportation	2,116	11,611	(285)	13,442
Operating, general and administrative	475	2,821		3,296
Rent	56	149	(2)	203
Depreciation and amortization	25	364		389
Operating profit (loss)	(142)	760		618
Interest expense	150	9		159
Equity in earnings of subsidiaries	489		(489)	
Earnings (loss) before income tax expense	197	751	(489)	459
Income tax expense (benefit)	(97)	262		165
Net earnings	$ 294	$ 489	$ (489)	$ 294

Condensed Consolidating

Statements of Operations

For the Quarter Ended May 22, 2004

	The Kroger Co.	Guarantor Subsidiaries	Eliminations	Consolidated
Sales	$ 2,221	$ 14,958	$ (274)	$ 16,905
Merchandise costs, including warehousing and transportation	1,730	11,051	(258)	12,523
Operating, general and administrative	474	2,735		3,209
Rent	64	164	(16)	212
Depreciation and amortization	40	332		372
Operating profit (loss)	(87)	676		589
Interest expense	156	16		172
Equity in earnings of subsidiaries	412		(412)	
Earnings (loss) before income tax expense	169	660	(412)	417
Income tax expense (benefit)	(94)	248		154
Net earnings	$ 263	$ 412	$ (412)	$ 263

Condensed Consolidating

Statements of Cash Flows

For the Quarter Ended May 21, 2005

	The Kroger Co.	Guarantor Subsidiaries	Consolidated
Net cash provided (used) by operating activities	$ (820)	$ 1,793	$ 973
Cash flows from investing activities:			
Capital expenditures	(33)	(368)	(401)
Other	9	15	24
Net cash used by investing activities	(24)	(353)	(377)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	6		6
Reductions in long-term debt	(459)	(1)	(460)
Proceeds from issuance of capital stock	22		22
Treasury stock purchases	(153)		(153)
Other	(2)	(18)	(20)
Net change in advances to subsidiaries	1,424	(1,424)	
Net cash provided (used) by financing activities	838	(1,443)	(605)
Net decrease in cash and temporary cash investments	(6)	(3)	(9)
Cash and temporary cash investments:			
Beginning of year	32	112	144
End of quarter	$ 26	$ 109	$ 135

Condensed Consolidating

Statements of Cash Flows

For the Quarter Ended May 22, 2004

	The Kroger Co.	Guarantor Subsidiaries	Consolidated
Net cash provided (used) by operating activities	$ (59)	$ 1,000	$ 941
Cash flows from investing activities:			
Capital expenditures	(27)	(426)	(453)
Other		6	6
Net cash used by investing activities	(27)	(420)	(447)
Cash flows from financing activities:			
Reductions in long-term debt	(319)	(2)	(321)
Proceeds from issuance of capital stock	15		15
Treasury stock purchases	(121)		(121)

Other	(5)	(78)	(83)
Net change in advances to subsidiaries	518	(518)	
Net provided (used) by financing activities	88	(598)	(510)
Net increase (decrease) in cash and temporary cash investments	2	(18)	(16)
Cash and temporary cash investments:			
Beginning of year	26	133	159
End of quarter	$ 28	$ 115	$ 143

12. COMMITMENTS AND CONTINGENCIES

The Company continually evaluates contingencies based upon the best available information.

Management believes that allowances for loss have been provided to the extent necessary and that its assessment of contingencies is reasonable. Allowances for loss are included in other current liabilities and other long-term liabilities. To the extent that resolution of contingencies results in amounts that vary from management s estimates, future earnings will be charged or credited.

The principal contingencies are described below.

Insurance The Company s workers compensation risks are self-insured in certain states. In addition, other workers compensation risks and certain levels of insured general liability risks are based on retrospective premium plans, deductible plans, and self-insured retention plans. The liability for workers compensation risks is accounted for on a present value basis. The liability for general liability risks is not present-valued. Actual claim settlements and expenses incident thereto may differ from the provisions for loss.

Litigation On February 2, 2004, the Attorney General for the State of California filed an action in Los Angeles federal court (California, ex rel Lockyer v. Safeway, Inc. dba Vons, a Safeway Company; Albertson s, Inc. and Ralphs Grocery Company, a division of The Kroger Co., United States District Court Central District of California, Case No. CV04-0687) alleging that the Mutual Strike Assistance Agreement (the Agreement) between the Company, Albertson s, Inc. and Safeway Inc. (collectively, the Retailers), which was designed to prevent the union from placing disproportionate pressure on one or more of the Retailers by picketing such Retailer(s) but not the other Retailer(s) during the labor dispute in southern California, violated Section 1 of the Sherman Act. The lawsuit seeks declarative and injunctive relief. Under the Agreement, the Company paid approximately $147 million to the other Retailers. The lawsuit raises claims that could question the validity of those payments, as well as claims that the retailers unlawfully restrained competition. On May 25, 2005, the Court denied a motion for summary judgment filed by the defendants. Ralphs and the other defendants have filed a notice of an interlocutory appeal to the United States Court of Appeals for the Ninth Circuit. The Company continues to believe it has strong defenses against this lawsuit and is vigorously defending it. Although this lawsuit is subject to uncertainties inherent to the litigation process, based on the information presently available to the Company, management does not expect that the ultimate resolution of this action will have a material effect, favorable or adverse, on the Company s financial condition, results of operations or cash flows.

Ralphs Grocery Company is the defendant in a group of civil actions initially filed in 2003 and for which a coordination order was issued on January 20, 2004, in The Great Escape Promotion Cases pending in the Superior Court of California, County of Los Angeles, Case No. JCCP No. 4343. The plaintiffs allege that Ralphs violated various laws protecting consumers in connection with a promotion pursuant to which Ralphs offered travel awards to customers. The plaintiffs are seeking to certify a class of several hundred thousand customers who, they allege, were harmed by Ralphs inability to fulfill the promotion. In a separate action styled People v. Ralphs Grocery Co., San Diego County Superior Court, Case No. GIC 832986, the California Attorney General brought an action based on similar allegations. Ralphs agreed to and did resolve that matter to the satisfaction of the Attorney General in a Stipulation of Final Judgment providing relief for all customers who, to Ralphs knowledge, had qualified for and sought travel awards under the promotion. Despite having resolved the litigation with the Attorney General, the Company cannot predict the outcome of The Great Escape Promotion Cases nor the dollar amount of damages for which Ralphs may be found additionally liable. Based on the information presently available to the Company, however, management does not believe the ultimate outcome will have a material effect on the Company s financial condition.

Other matters are described under the heading Legal Proceedings in the Company s Annual Report on Form 10-K for the fiscal year ended January 29, 2005.

Various claims and lawsuits arising in the normal course of business, including suits charging violations of certain antitrust and civil rights laws, are pending against the Company. Some of these purport or have been determined to be class actions and/or seek substantial damages. Any damages that may be awarded in an antitrust case will be automatically trebled. Although it is not possible at this time to evaluate the merits of all these claims and lawsuits, nor their likelihood of success, the Company is of the belief that any resulting liability will not have a material adverse effect on the Company s financial position.

The Company continually evaluates its exposure to loss contingencies arising from pending or threatened litigation and believes it has made adequate provisions therefore. Nonetheless, assessing and predicting the outcomes of these matters involves substantial uncertainties. It remains possible that despite management s current belief, material differences in actual outcomes or changes in management s evaluation or predictions could arise that could have a material adverse effect on the Company s financial condition or results of operation.

Guarantees The Company periodically enters into real estate joint ventures in connection with the development of certain properties. The Company usually sells its interest in such partnerships upon completion of the projects. As of May 21, 2005, the Company was a partner with 50% ownership in two real estate joint ventures for which it has guaranteed approximately $8 of debt incurred by the ventures. Based on the

covenants underlying this indebtedness as of May 21, 2005, it is unlikely that the Company will be responsible for repayment of these obligations.

Assignments The Company is contingently liable for leases that have been assigned to various third parties in connection with facility closings and dispositions. The Company could be required to satisfy obligations under leases if any of the assignees are unable to fulfill their lease obligations. Due to the wide distribution of the Company s assignments among third parties, and various other remedies available, the Company believes the likelihood that it will be required to satisfy a material amount of these obligations is remote.

Benefit Plans The Company administers certain non-contributory defined benefit retirement plans for substantially all non-union employees and some union-represented employees as determined by the terms and conditions of collective bargaining agreements. Funding for the pension plans is based on a review of the specific requirements and an evaluation of the assets and liabilities of each plan.

In addition to providing pension benefits, the Company provides certain health care benefits for retired employees. Funding for the retiree health care benefits occurs as claims or premiums are paid.

The determination of the obligation and expense for the Company s pension and other post-retirement benefits is dependent on the Company s selection of assumptions used by actuaries in calculating those amounts. Those assumptions are described in the Company s fiscal 2004 Annual Report on Form 10-K and include, among others, the discount rate, the expected long-term rate of return on plan assets, and the rates of increase in compensation and health care costs. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension and other post-retirement obligations and future expense.

In addition to the $89 contributed to Company-sponsored pension plans in the first quarter of 2005, the Company is required to make cash contributions totaling $53 during the balance of fiscal 2005. The Company may elect to make additional contributions during 2005 in order to maintain its desired funding levels. Among other things, investment performance of plan assets, the interest rates required to be used to calculate pension obligations and future changes in legislation will determine the amounts of any additional contributions.

The Company also contributes to various multi-employer pension plans based on obligations arising from most of its collective bargaining agreements. These plans provide retirement benefits to participants based on their service to contributing employers. The benefits are paid from assets held in trust for that purpose. Trustees are appointed in equal number by employers and unions The trustees typically are responsible for determining the level of benefits to be provided to participants as well as for such matters as the investment of the assets and the administration of the plans.

Based on the most recent information available to it, the Company believes that the present value of actuarial accrued liabilities in most or all of these multi-employer plans substantially exceeds the value of the assets held in trust to pay benefits. Although underfunding can result in the imposition of excise taxes on contributing employers, increased contributions can reduce underfunding so that excise taxes are not triggered. Moreover, if the Company were to exit certain markets or otherwise cease making contributions to these funds, the Company could trigger a substantial withdrawal liability. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably determined, in accordance with GAAP.

13. Fair Value Interest Rate Hedges

In 2003, the Company reconfigured a portion of its interest derivative portfolio by terminating six interest rate swap agreements that were accounted for as fair value hedges. Approximately $114 of proceeds received as a result of these terminations were recorded as adjustments to the carrying values of the underlying debt and are being amortized over the remaining lives of the debt. As of May 21, 2005, the unamortized balances totaled approximately $75.

At the end of the first quarter of 2005, the Company maintained 10 interest rate swap agreements that are being accounted for as fair value hedges. As of May 21, 2005, liabilities totaling $18 have been recorded to reflect the fair value of these new agreements, offset by reductions in the fair value of the underlying debt.

14. Subsequent Events

On June 23, 2005, the Company s shareholders approved The Kroger Co. 2005 Long-Term Incentive Plan (the Plan). A summary of the Plan is set forth in the Company s Current Report on Form 8-K filed on June 23, 2005.

On June 28, 2005, Fitch Ratings changed its rating outlook on the Company to negative from stable and affirmed the Company s long-term credit rating of BBB.

On June 29, 2005, Standard & Poor s Ratings Services downgraded the Company s long-term credit rating to BBB- with a stable outlook.

PART II OTHER INFORMATION

Item 6. Exhibits.

EXHIBIT 3.1 - Amended Articles of Incorporation of the Company are hereby incorporated by reference to Exhibit 3.1 of the Company s Quarterly Report on Form 10-Q for the quarter ended October 3, 1998. The Company s Regulations are incorporated by reference to Exhibit 4.2 of the Company s Registration Statement on Form S-3 as filed with the Securities and Exchange Commission on January 28, 1993, and bearing Registration No. 33-57552.

EXHIBIT 4.1 - Instruments defining the rights of holders of long-term debt of the Company and its subsidiaries are not filed as Exhibits because the amount of debt under each instrument is less than 10% of the consolidated assets of the Company. The Company undertakes to file these instruments with the Commission upon request.

*EXHIBIT 31.1 Rule 13a 14(a) / 15d 14(a) Certifications Chief Executive Officer

*EXHIBIT 31.2 Rule 13a 14(a) / 15d 14(a) Certifications Chief Financial Officer

EXHIBIT 31.3 Rule 13a 14(a) / 15d 14(a) Certifications Chief Executive Officer

EXHIBIT 31.4 Rule 13a 14(a) / 15d 14(a) Certifications Chief Financial Officer

*EXHIBIT 32.1 Section 1350 Certifications

EXHIBIT 32.2 Section 1350 Certifications

*EXHIBIT 99.1 - Additional Exhibits - Statement of Computation of Ratio of Earnings to Fixed Charges.

EXHIBIT 99.2 - Additional Exhibits - Statement of Computation of Ratio of Earnings to Fixed Charges.

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* Previously filed.

SIGNATURES

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.

	THE KROGER CO.
Dated: March 6, 2006	By: /s/ David B. Dillon David B. Dillon Chairman of the Board and Chief Executive Officer
Dated: March 6, 2006	By: /s/ J. Michael Schlotman J. Michael Schlotman Senior Vice President and Chief Financial Officer

Exhibit Index

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Exhibit 31.3 -	Rule 13a 14(a) / 15d 14(a) Certifications Chief Executive Officer
Exhibit 31.4 -	Rule 13a 14(a) / 15d 14(a) Certifications Chief Financial Officer
*Exhibit 32.1 -	Section 1350 Certifications
Exhibit 32.2 -	Section 1350 Certifications
*Exhibit 99.1 -	Additional Exhibits - Statement of Computation of Ratio of Earnings to Fixed Charges.
Exhibit 99.2 -	Additional Exhibits - Statement of Computation of Ratio of Earnings to Fixed Charges.

* Previously filed.