

KROGER CO
Form 10-Q
June 28, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 25, 2013

OR

o 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

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(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

31-0345740
(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 No

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

Indicate by check mark 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):

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Large accelerated filer x

Accelerated filer o

Non-accelerated filer o
(do not check if a smaller reporting company)

Smaller reporting company o

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

There were 518,243,041 shares of Common Stock (\$1 par value) outstanding as of June 21, 2013.

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 25, 2013	May 19, 2012
Sales	\$ 30,043	\$ 29,065
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	23,856	23,095
Operating, general and administrative	4,600	4,464
Rent	189	191
Depreciation and amortization	519	501
Operating profit	879	814
Interest expense	129	141
Earnings before income tax expense	750	673
Income tax expense	266	232
Net earnings including noncontrolling interests	484	441
Net earnings attributable to noncontrolling interests	3	2
Net earnings attributable to The Kroger Co.	\$ 481	\$ 439
Net earnings attributable to The Kroger Co. per basic common share	\$ 0.93	\$ 0.78
Average number of common shares used in basic calculation	514	556
Net earnings attributable to The Kroger Co. per diluted common share	\$ 0.92	\$ 0.78
Average number of common shares used in diluted calculation	520	559
Dividends declared per common share	\$ 0.150	\$ 0.115

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

THE KROGER CO.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in millions and unaudited)

	First Quarter Ended	
	May 25, 2013	May 19, 2012
Net earnings including noncontrolling interests	\$ 484	\$ 441
Other comprehensive income		
Unrealized gain on available for sale securities, net of income tax(1)	3	
Amortization of amounts included in net periodic pension expense, net of income tax(2)	19	18
Unrealized loss on cash flow hedging activities, net of income tax(3)	(19)	(14)
Amortization of unrealized gains and losses on cash flow hedging activities, net of income tax	1	2
Total other comprehensive income	4	6
Comprehensive income	488	447
Comprehensive income attributable to noncontrolling interests	3	2
Comprehensive income attributable to The Kroger Co.	\$ 485	\$ 445

(1) Amount is net of tax of \$2 for the first quarter of 2013.

(2) Amount is net of tax of \$11 for the first quarter of 2013 and \$12 for the first quarter of 2012.

(3) Amount is net of tax of \$(12) for the first quarter of 2013 and \$(9) for the first quarter of 2012.

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 25, 2013	February 2, 2013
ASSETS		
Current assets		
Cash and temporary cash investments	\$ 247	\$ 238
Store deposits in-transit	851	955
Receivables	961	1,051
FIFO inventory	6,191	6,244
LIFO reserve	(1,115)	(1,098)
Prepaid and other current assets	299	569
Total current assets	7,434	7,959
Property, plant and equipment, net	14,967	14,849
Goodwill	1,234	1,234
Other assets	592	593
Total Assets	\$ 24,227	\$ 24,635
LIABILITIES		
Current liabilities		
Current portion of long-term debt including obligations under capital leases and financing obligations	\$ 1,784	\$ 2,734
Trade accounts payable	4,855	4,484
Accrued salaries and wages	957	1,017
Deferred income taxes	284	284
Other current liabilities	2,487	2,538
Total current liabilities	10,367	11,057
Long-term debt including obligations under capital leases and financing obligations		
Face-value of long-term debt including obligations under capital leases and financing obligations	6,161	6,141
Adjustment to reflect fair-value interest rate hedges	1	4
Long-term debt including obligations under capital leases and financing obligations	6,162	6,145
Deferred income taxes	776	800
Pension and postretirement benefit obligations	1,199	1,291
Other long-term liabilities	1,127	1,128
Total Liabilities	19,631	20,421
Commitments and contingencies (see Note 6)		
SHAREOWNERS EQUITY		
Preferred shares, \$100 per share, 5 shares authorized and unissued	—	—
Common shares, \$1 par per share, 1,000 shares authorized; 959 shares issued in 2013 and 2012	959	959
Additional paid-in capital	3,483	3,451
Accumulated other comprehensive loss	(749)	(753)
Accumulated earnings	10,190	9,787
Common shares in treasury, at cost, 445 shares in 2013 and 2012	(9,293)	(9,237)

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Total Shareowners Equity - The Kroger Co.	4,590	4,207
Noncontrolling interests	6	7
Total Equity	4,596	4,214
Total Liabilities and Equity	\$ 24,227	\$ 24,635

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 25, 2013	May 19, 2012
Cash Flows from Operating Activities:		
Net earnings including noncontrolling interests	\$ 484	\$ 441
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	519	501
LIFO charge	17	46
Stock-based employee compensation	24	24
Expense for Company-sponsored pension plans	25	31
Deferred income taxes	(14)	58
Other	38	(3)
Changes in operating assets and liabilities net of effects from acquisitions of businesses:		
Store deposits in-transit	104	(53)
Receivables	88	3
Inventories	53	91
Prepaid expenses	276	(56)
Trade accounts payable	279	214
Accrued expenses	(226)	(49)
Income taxes receivable and payable	89	94
Other	(139)	(43)
Net cash provided by operating activities	1,617	1,299
Cash Flows from Investing Activities:		
Payments for capital investments	(618)	(542)
Proceeds from sale of assets	6	9
Other	(14)	6
Net cash used by investing activities	(626)	(527)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	2	846
Dividends paid	(78)	(65)
Payments on long-term debt	(409)	(527)
Net payments on commercial paper	(545)	(370)
Excess tax benefits on stock-based awards	7	1
Proceeds from issuance of capital shares	95	38
Treasury stock purchases	(146)	(345)
Increase (decrease) in book overdrafts	93	(19)
Other	(1)	(8)
Net cash used by financing activities	(982)	(449)
Net increase in cash and temporary cash investments	9	323
Cash and temporary cash investments:		
Beginning of year	238	188
End of quarter	\$ 247	\$ 511

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Reconciliation of capital investments:

Payments for capital investments	\$	(618)	\$	(542)
Changes in construction-in-progress payables		(28)		(15)
Total capital investments	\$	(646)	\$	(557)

Disclosure of cash flow information:

Cash paid during the quarter for interest	\$	114	\$	113
Cash paid during the quarter for income taxes	\$	181	\$	94

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

THE KROGER CO.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS EQUITY

(in millions, except per share amounts)

(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Gain (Loss)	Accumulated Earnings	Noncontrolling Interest	Total
Balances at January 28, 2012	959	\$ 959	\$ 3,427	398	\$ (8,132)	\$ (844)	\$ 8,571	\$ (15)	\$ 3,966
Issuance of common stock:									
Stock options exercised				(2)	38				38
Restricted stock issued			(2)		1				(1)
Treasury stock activity:									
Treasury stock purchases, at cost				13	(302)				(302)
Stock options exchanged				1	(43)				(43)
Share-based employee compensation			24						24
Other comprehensive gain net of income tax of \$3						6			6
Other			5		(2)				3
Cash dividends declared (\$0.115 per common share)							(65)		(65)
Net earnings including noncontrolling interests							439	2	441
Balances at May 19, 2012	959	\$ 959	\$ 3,454	410	\$ (8,440)	\$ (838)	\$ 8,945	\$ (13)	\$ 4,067
Balances at February 2, 2013	959	\$ 959	\$ 3,451	445	\$ (9,237)	\$ (753)	\$ 9,787	\$ 7	\$ 4,214
Issuance of common stock:									
Stock options exercised				(4)	95				95
Restricted stock issued			(3)		1				(2)
Treasury stock activity:									