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 November 5, 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 725,483,410 shares of Common Stock ($1 par value) outstanding as of December 9, 2005.

EXPLANATORY NOTE:

This filing is made to restate the November 5, 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)

	Third Quarter Ended		Three Quarters Ended	
	November 5, 2005	**November 6, 2004**	**November 5, 2005**	**November 6, 2004**
Sales	$ 14,020	$ 12,854	$ 45,833	$ 42,739
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	10,596	9,639	34,503	31,883
Operating, general and administrative	2,556	2,433	8,380	8,075
Rent	166	158	514	525
Depreciation and amortization	287	287	969	949
Operating Profit	415	337	1,467	1,307
Interest expense	114	117	394	442
Earnings before income tax expense	301	220	1,073	865
Income tax expense	116	77	397	317
Net earnings	$ 185	$ 143	$ 676	$ 548
Net earnings per basic common share	$ 0.26	$ 0.19	$ 0.93	$ 0.74
Average number of common shares used in basic calculation	724	736	725	738
Net earnings per diluted common share	$ 0.25	$ 0.19	$ 0.92	$ 0.73
Average number of common shares used in diluted calculation	732	742	731	746

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)

	November 5, 2005 (as restated)	January 29, 2005 (as restated)
ASSETS		
Current assets		
Cash In stores	$ 137	$ 144
Cash Temporary cash investments	100	
Total Cash	237	144
Deposits in-transit	562	506
Receivables	664	661
Receivables - Taxes		167
FIFO Inventory	5,186	4,729
LIFO Credit	(400)	(373)
Prefunded employee benefits		300
Property held for sale	98	23
Prepaid and other current assets	226	249
Total current assets	6,573	6,406
Property, plant and equipment, net	11,381	11,497
Goodwill	2,192	2,191
Other assets and investments	431	397
Total Assets	$ 20,577	$ 20,491
LIABILITIES		
Current liabilities		
Current portion of long-term debt, at face value, including obligations under capital leases and financing obligations	$ 639	$ 71
Accounts payable	3,763	3,598
Deferred income taxes	286	286
Other current liabilities	2,548	2,380
Total current liabilities	7,236	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	6,596	7,830
Adjustment to reflect fair value interest rate hedges (Note 12)	25	70
Long-term debt including obligations under capital leases and financing obligations	6,621	7,900
Deferred income taxes	781	841
Other long-term liabilities	1,777	1,796
Total Liabilities	16,415	16,872
Commitments and Contingencies (Note 11)		

SHAREOWNERS EQUITY		
Preferred stock, $100 par, 5 shares authorized and unissued		
Common stock, $1 par, 1,000 shares authorized: 926 shares issued in 2005 and 918 shares issued in 2004	926	918
Additional paid-in capital	2,494	2,432
Accumulated other comprehensive loss	(199)	(202)
Accumulated earnings	4,290	3,620
Common stock in treasury, at cost, 201 shares in 2005 and 190 shares in 2004	(3,349)	(3,149)
Total Shareowners Equity	4,162	3,619
Total Liabilities and Shareowners Equity	$ 20,577	$ 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)

	Three Quarters Ended	
	November 5, 2005	**November 6, 2004**
Cash Flows From Operating Activities:		
Net earnings	$ 676	$ 548
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	969	949
LIFO charge	27	31
Deferred income taxes	(62)	143
Other	35	34
Changes in operating assets and liabilities net of effects from acquisitions of businesses:		
Inventories	(457)	(492)
Receivables	(3)	20
Deposits in-transit	(56)	12
Prepaid expenses	321	314
Accounts payable	344	331
Accrued expenses	122	(60)
Accrued income taxes	346	153
Contribution to company-sponsored pension plans	(300)	(35)
Long-term liabilities	87	100
Net cash provided by operating activities	2,049	2,048
Cash Flows From Investing Activities:		
Capital expenditures, excluding acquisitions	(1,011)	(1,280)
Proceeds from sale of assets	61	58
Other	(22)	7
Net cash used by investing activities	(972)	(1,215)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	13	
Payments on long-term debt	(61)	(777)
Borrowings (payments) on bank revolver	(629)	263
Financing charges incurred		(5)
Debt prepayment costs		(25)
Decrease in book overdrafts	(181)	(102)
Proceeds from issuance of capital stock	76	33
Treasury stock purchases	(202)	(249)
Net cash used by financing activities	(984)	(862)
Net increase (decrease) in cash and temporary cash investments	93	(29)
Cash and temporary cash investments:		
Beginning of year	144	159
End of quarter	$ 237	$ 130

Supplemental disclosure of cash flow information:

Cash paid during the year for interest	$	442	$	516
Cash paid during the year for income taxes	$	112	$	4

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 third quarter and three quarters ended November 5, 2005 and November 6, 2004 include the results of operations of the Company for the 12-week and 40-week periods then ended.

Vendor Allowances

The Company recognizes all vendor allowances as a reduction in merchandise costs when the related product is sold. In most cases, vendor allowances are applied to the related product by item, and therefore reduce the carrying value of inventory by item. When it is not practicable to allocate vendor allowances to the product by item, vendor allowances are recognized as a reduction in merchandise costs based on inventory turns and recognized as the product is sold.

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	19	23

Payments	(11)	(7)
Adjustments	(4)	3
Balance at end of Third Quarter	$ 69	$ 54

In addition, the Company maintains a $54 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 $9 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 November 5, 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 November 5, 2005 and January 29, 2005.

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

Consolidated Balance Sheets

November 5, 2005

	As Previously Reported	Adjustments	As Restated
Deferred income taxes	$ 267	$ 19	$ 286
Total current liabilities	$ 7,217	$ 19	$ 7,236
Deferred income taxes	$ 879	$ (98)	$ 781
Total liabilities	$ 16,494	$ (79)	$ 16,415
Accumulated earnings	$ 4,211	$ 79	$ 4,290
Total shareowner s equity	$ 4,083	$ 79	$ 4,162

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 $1 and $1, after-tax, for the third quarters of 2005 and 2004, respectively. Restricted stock expense totaled $4 and $6, after-tax, for the first three quarters 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*.

	Third Quarter		Year-To-Date	
	2005	**2004**	**2005**	**2004**
Net earnings, as reported	$ 185	$ 143	$ 676	$ 548
Add: Stock-based compensation expense included in net earnings, net of income tax benefits	1	1	4	6
Subtract: Total stock-based compensation expense determined under fair value method for all awards, net of income tax benefits	(9)	(10)	(26)	(35)
Pro forma net earnings	$ 177	$ 134	$ 654	$ 519
Net earnings per basic common share, as reported	$ 0.26	$ 0.19	$ 0.93	$ 0.74
Pro forma earnings per basic common share	$ 0.25	$ 0.18	$ 0.90	$ 0.70
Net earnings per diluted common share, as reported	$ 0.25	$ 0.19	$ 0.92	$ 0.73
Pro forma earnings per diluted common share	$ 0.24	$ 0.18	$ 0.89	$ 0.70

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 per share granted and $7.91 per share granted, 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:

	November 5, 2005	**January 29, 2005**
Credit Facility and Commercial Paper borrowings	$ 65	$ 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	213	218
Other	177	202
Total debt, excluding capital leases and financing obligations	6,846	7,505
Less current portion	(613)	(46)
Total long-term debt, excluding capital leases and financing obligations	$ 6,233	$ 7,459

5. Comprehensive Income

Comprehensive income is as follows:

	Third Quarter Ended		Year-To-Date	
	November 5, 2005	November 6, 2004	November 5, 2005	November 6, 2004
Net earnings	$ 185	$ 143	$ 676	$ 548
Unrealized gain (loss) on hedging activities, net of tax[1]	1		3	
Comprehensive income	$ 186	$ 143	$ 679	$ 548

(1) Amount is net of tax of $1 for the third quarter of 2005 and $2 for the first three quarters 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.

6. 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 third quarter of 2005 and 2004.

	Third Quarter			
	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
Components of net periodic benefit cost:				
Service cost	$ 26	$ 26	$ 3	$ 3
Interest cost	27	26	5	5
Expected return on plan assets	(31)	(28)		
Amortization of:				
Transition asset				
Prior service cost	1	1	(2)	(2)
Actuarial (gain) loss	7	2		
Net periodic benefit cost	$ 30	$ 27	$ 6	$ 6

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 three quarters of 2005 and 2004:

	Year-To-Date			
	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
Components of net periodic benefit cost:				
Service cost	$ 92	$ 85	$ 9	$ 8
Interest cost	92	87	16	17
Expected return on plan assets	(100)	(94)		
Amortization of:				
Transition asset				
Prior service cost	4	4	(6)	(5)

Actuarial (gain) loss	21	7	1	
Net periodic benefit cost	$ 109	$ 89	$ 20	$ 20

The Company contributed $300 to the Company-sponsored pension plans in the first three quarters of 2005 and 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, in accordance with SFAS No. 87, *Employers Accounting for Pensions*.

7. Income Taxes

The effective income tax rate was 37.0% for the first three quarters of 2005 and 36.7% for the first three quarters 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 quarters and the third quarter effect of certain legal expenses that were not deductible for tax purposes.

8. 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 net earnings and shares used in calculating earnings per basic common share to those used in calculating earnings per diluted common share:

	Third Quarter Ended November 5, 2005			Third Quarter Ended November 6, 2004		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Earnings per basic common share	$ 185	724	$ 0.26	$ 143	736	$ 0.19
Dilutive effect of stock options and warrants		8			6	
Earnings per diluted common share	$ 185	732	$ 0.25	$ 143	742	$ 0.19

	Three Quarters Ended November 5, 2005			Three Quarters Ended November 6, 2004		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Earnings per basic common share	$ 676	725	$ 0.93	$ 548	738	$ 0.74
Dilutive effect of stock options and warrants		6			8	
Earnings per diluted common share	$ 676	731	$ 0.92	$ 548	746	$ 0.73

The Company had options outstanding for approximately 24 shares and 39 shares during the third 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. For the first three quarters of 2005 and 2004, the Company had options outstanding for approximately 25 and 31 shares, respectively, that were excluded from the computations of diluted earnings per share because their inclusion would have had an anti-dilutive effect on earnings per share.

9. Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board (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 include 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-lived, 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.

In June 2005, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements Purchased After Lease Inception or Acquired in a Business Combination. EITF No. 05-6 requires that leasehold improvements acquired in a business combination be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals deemed to be reasonably assured at the date of acquisition. EITF No. 05-6 further requires that leasehold improvements that are placed into service significantly after and not contemplated at or near the beginning of the lease term shall be amortized over the shorter of the useful life of the assets or a term that includes the required lease periods and renewals deemed to be reasonably assured at the date of acquisition. EITF No. 05-6 became effective for the Company s fiscal quarter beginning August 14, 2005. The adoption of EITF No. 05-6 did not have a material effect on the Company s Consolidated Financial Statements.

In October 2005, the FASB issued FASB Staff Position FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period (FSP FAS 13-1). FSP FAS 13-1 requires rental costs associated with building or ground leases incurred during a construction period to be recognized as rental expense and is effective for the first reporting period beginning after December 15, 2005. In addition, FSP FAS 13-1 requires lessees to cease capitalizing rental costs as of December 15, 2005 for operating lease agreements entered into prior to December 15, 2005. Early adoption is permitted. The Company was already in compliance with the provisions of FSP FAS 13-1, therefore it will have no effect on the Company s Consolidated Financial Statements.

10. 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 November 5, 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 January 29, 2005 and for the third quarters ended, and the three quarters ended, November 5, 2005 and November 6, 2004. As described in Note 2, certain amounts have been restated.

Condensed Consolidating

Balance Sheets

As of November 5, 2005

(as restated)

	The Kroger Co.	Guarantor Subsidiaries	Eliminations	Consolidated
Current assets				
Cash, including temporary cash investments	$ 25	$ 212	$	$ 237
Deposits in-transit	60	502		562
Accounts receivable	501	665	(502)	664
Net inventories	408	4,378		4,786
Prepaid and other current assets	69	255		324
Total current assets	1,063	6,012	(502)	6,573
Property, plant and equipment, net	1,303	10,078		11,381
Goodwill	56	2,136		2,192
Other assets and investments	548	(117)		431
Investment in and advances to subsidiaries	10,869		(10,869)	
Total assets	$ 13,839	$ 18,109	$ (11,371)	$ 20,577
Current liabilities				
Current portion of long-term debt including obligations under capital leases and financing obligations	$ 639	$	$	$ 639
Accounts payable	193	4,072	(502)	3,763
Other current liabilities	241	2,593		2,834
Total current liabilities	1,073	6,665	(502)	7,236
Long-term debt including obligations under capital leases and financing obligations				
Face value long-term debt including obligations under capital leases and financing obligations	6,596			6,596
Adjustment to reflect fair value interest rate hedges	25			25
Long-term debt including obligations under capital leases and financing obligations	6,621			6,621
Other long-term liabilities	1,983	575		2,558
Total liabilities	9,677	7,240	(502)	16,415
Shareowners Equity	4,162	10,869	(10,869)	4,162
Total liabilities and shareowners equity	$ 13,839	$ 18,109	$ (11,371)	$ 20,577

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 November 5, 2005

	The Kroger Co.	Guarantor Subsidiaries	Eliminations	Consolidated
Sales	$ 2,013	$ 12,164	$ (157)	$ 14,020
Merchandise costs, including warehousing and transportation	1,541	9,210	(155)	10,596
Operating, general and administrative	389	2,167		2,556
Rent	34	134	(2)	166
Depreciation and amortization	62	225		287
Operating profit (loss)	(13)	428		415
Interest expense	113	1		114
Equity in earnings of subsidiaries	381		(381)	
Earnings (loss) before income tax expense	255	427	(381)	301
Income tax expense (benefit)	70	46		116
Net earnings	$ 185	$ 381	$ (381)	$ 185

Condensed Consolidating

Statements of Operations

For the Quarter Ended November 6, 2004

	The Kroger Co.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Sales	$ 1,611	$ 11,516	$ 12	$ (285)	$ 12,854
Merchandise costs, including warehousing and transportation	1,306	8,606		(273)	9,639
Operating, general and administrative	374	2,062	(3)		2,433
Rent	28	142		(12)	158
Depreciation and amortization	23	262	2		287
Operating profit (loss)	(120)	444	13		337
Interest expense	105	6	6		117
Equity in earnings of subsidiaries	317			(317)	
Earnings (loss) before income tax expense	92	438	7	(317)	220
Income tax expense (benefit)	(51)	126	2		77
Net earnings	$ 143	$ 312	$ 5	$ (317)	$ 143

Condensed Consolidating

Statements of Operations

For the Three Quarters Ended November 5, 2005

	The Kroger Co.	Guarantor Subsidiaries	Eliminations	Consolidated
Sales	$ 6,502	$ 39,992	$ (661)	$ 45,833
Merchandise costs, including warehousing and transportation	5,173	29,985	(655)	34,503
Operating, general and administrative	1,251	7,129		8,380
Rent	123	397	(6)	514
Depreciation and amortization	104	865		969
Operating profit (loss)	(149)	1,616		1,467
Interest expense	387	7		394
Equity in earnings of subsidiaries	1,149		(1,149)	
Earnings (loss) before income tax expense	613	1,609	(1,149)	1,073
Income tax expense (benefit)	(63)	460		397
Net earnings	$ 676	$ 1,149	$ (1,149)	$ 676

Condensed Consolidating

Statements of Operations

For the Three Quarters Ended November 6, 2004

	The Kroger Co.	Guarantor Subsidiaries	Eliminations	Consolidated
Sales	$ 6,004	$ 37,531	$ (796)	$ 42,739
Merchandise costs, including warehousing and transportation	4,861	27,778	(756)	31,883
Operating, general and administrative	1,163	6,912		8,075
Rent	140	425	(40)	525
Depreciation and amortization	82	867		949
Operating profit (loss)	(242)	1,549		1,307
Interest expense	415	27		442
Equity in earnings of subsidiaries	989		(989)	
Earnings (loss) before income tax expense	332	1,522	(989)	865
Income tax expense (benefit)	(216)	533		317
Net earnings	$ 548	$ 989	$ (989)	$ 548

Condensed Consolidating

Statements of Cash Flows

For the Quarter Ended November 5, 2005

	The Kroger Co.	Guarantor Subsidiaries	Consolidated
Net cash provided by operating activities	$ 1,071	$ 978	$ 2,049
Cash flows from investing activities:			
Capital expenditures, excluding acquisitions	(125)	(886)	(1,011)
Other	17	22	39
Net cash used by investing activities	(108)	(864)	(972)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	13		13
Payments on long-term debt	(28)	(33)	(61)
Payments on bank revolver	(629)		(629)
Proceeds from issuance of capital stock	76		76
Treasury stock purchases	(202)		(202)
Other	1	(182)	(181)
Net change in advances to subsidiaries	(201)	201	
Net cash used by financing activities	(970)	(14)	(984)
Net increase (decrease) in cash	(7)	100	93
Cash:			
Beginning of year	32	112	144
End of quarter	$ 25	$ 212	$ 237

Condensed Consolidating

Statements of Cash Flows

For the Quarter Ended November 6, 2004

	The Kroger Co.	Guarantor Subsidiaries	Consolidated
Net cash provided by operating activities	$ 481	$ 1,567	$ 2,048
Cash flows from investing activities:			
Capital expenditures, excluding acquisitions	(136)	(1,144)	(1,280)
Other	17	48	65
Net cash used by investing activities	(119)	(1,096)	(1,215)
Cash flows from financing activities:			
Payments on long-term debt	(777)		(777)
Borrowings on bank revolver	256	7	263
Proceeds from issuance of capital stock	33		33
Treasury stock purchases	(249)		(249)
Other	(32)	(100)	(132)

Net change in advances to subsidiaries	403	(403)	
Net cash used by financing activities	(366)	(496)	(862)
Net decrease in cash	(4)	(25)	(29)
Cash:			
Beginning of year	26	133	159
End of quarter	$ 22	$ 108	$ 130

11. Commitments and Contingencies

The Company continuously evaluates contingencies based upon the best available evidence.

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 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 a summary judgment filed by the defendants. Ralphs and the other defendants filed a notice of an interlocutory appeal to the United States Court of Appeals for the Ninth Circuit. On November 29, 2005, the appellate court dismissed the appeal. 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.

The United States Attorney s Office for the Central District of California is investigating the hiring practices of Ralphs Grocery Company (Ralphs), a wholly-owned subsidiary of The Kroger Co., during the labor dispute from October 2003 through February 2004. Among the matters under investigation is whether some locked-out employees were allowed or encouraged to work under false identities or false Social Security numbers, despite Company policy forbidding such conduct. A grand jury has convened to consider whether such acts violated federal criminal statutes. The Company expects that Ralphs will be indicted on charges that its conduct violated federal law. In addition, these alleged practices are the subject of claims that Ralphs conduct of the lockout was unlawful, and that Ralphs is liable under the National Labor Relations Act (NLRA). The Los Angeles Regional Office of the National Labor Relations Board (NLRB) has notified the charging parties that all charges alleging that Ralphs lockout violated the NLRA have been dismissed. That decision is being appealed by the charging parties to the General Counsel of the NLRB. The amounts potentially claimed in both the criminal and the NLRB matter are substantial, but based on the information presently available to the Company, management does not expect the ultimate resolution of this matter to have a material effect on the financial condition of the Company.

On September 8, 2005, the Los Angeles City Attorney s office filed a misdemeanor complaint against a subsidiary of the Company, Ralphs Grocery Company (People v. Ralphs Grocery Company, Superior Court of California, County of Los Angeles, Case No. 5CR02616) regarding alleged violations of the California Water Code. Ralphs operates a system at one store location to treat groundwater within an underground basement because of the presence of naturally occurring petroleum associated with the nearby La Brea tar pits, which system is subject to a discharge permit issued by the California Regional Water Quality Control Board. On December 1, 2005, Ralphs executed a civil consent judgment under which the misdemeanor complaint is to be dismissed and Ralphs will pay a civil penalty.

On November 24, 2004, the Company was notified by the office of the United States Attorney for the District of Colorado that the Drug Enforcement Agency (DEA) had referred a matter to it for investigation regarding alleged violation of the Controlled Substances Act by the Company s King Soopers division. The government alleges that ineffective controls and procedures, as well as improper record keeping, permitted controlled substances to be diverted from pharmacies operated by King Soopers. As a result of these allegations, the Company has retained a consultant to assist it in reviewing its policies and procedures, record keeping and training in its pharmacies, and is taking corrective action, as warranted. On October 20, 2005, the Company resolved this matter by agreeing to pay a $7 civil penalty, agreeing to implement a comprehensive compliance program, and agreeing to an additional $3 payment if it fails to comply with the compliance program.

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 therefor. 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 November 5, 2005, the Company was a partner with 50% ownership in two real estate joint ventures for which it has guaranteed approximately $11 of debt incurred by the ventures. Based on the covenants underlying this indebtedness as of November 5, 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.

The Company contributed $300 to its Company-sponsored pension plans in the first three quarters of 2005. The Company expects these contributions to reduce its minimum required contributions in future years. 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. While the Company has no required contributions due in 2006, the Company expects to make voluntary contributions to Company-sponsored pension plans totaling approximately $100 - $150 during fiscal 2006.

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. Because the Company is only one of a number of employers contributing to these plans, it is difficult to ascertain what the Company s share of the underfunding would be, although we anticipate the Company s contributions to these plans will increase each year. Although underfunding can result in the imposition of excise taxes on contributing employers, other factors such as increased contributions, changes in benefits and improved investment performance 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 SFAS No. 87, *Employers Accounting for Pensions*.

12. 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 November 5, 2005, the unamortized balances totaled approximately $67.

At the end of the third quarter of 2005, the Company maintained 10 interest rate swap agreements that are being accounted for as fair value hedges. As of November 5, 2005, liabilities totaling $42 have been recorded to reflect the fair value of these new agreements, offset by reductions in the fair value of the underlying debt.

13. Subsequent Events

On November 17, 2005, the Company entered into three forward-starting interest rate swap agreements with an aggregate notional amount totaling $750. A forward-starting interest rate swap is an agreement that effectively hedges future benchmark interest rates, including general corporate spreads, on debt for an established period of time. The Company entered into the forward-starting interest rate swaps in order to lock

in fixed interest rates on the Company s forecasted issuance of debt in fiscal 2007 and 2008. The forward-starting interest rate swaps were designated as cash-flow hedges as defined by SFAS No. 133.

On December 9, 2005, the Company announced a set of corporate governance enhancements. The Company s board of directors voted to recommend that shareholders approve at the next shareholder meeting in June 2006: the declassification of the board of directors in conjunction with the elimination of cumulative voting; the elimination of the supermajority necessary to engage in certain transactions with shareholders owning 10% or more of the Company s shares; and opting out of the Ohio control share acquisition statute. The board of directors also will allow the Company s warrant dividend plan, or poison pill, to expire March 19, 2006; adopted a policy requiring shareholder approval of new severance arrangements with senior executives that would exceed 2.99 times average W-2 earnings over the prior five years; and adopted a policy requiring a director receiving more withheld votes than for votes to tender his or her resignation, which resignation would be acted on by either the board s Corporate Governance Committee or the remainder of the board.

On December 14, 2005, the Company disclosed on a Current Report on Form 8-K the adoption of the 2006 Long-Term Bonus Plan.

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.

* 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 31.4 -	Rule 13a 14(a) / 15d 14(a) Certifications Chief Financial Officer
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Exhibit 32.2 -	Section 1350 Certifications
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* Previously filed.