

KROGER CO
Form 11-K
June 26, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008.

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-303

Edgar Filing: KROGER CO - Form 11-K

The Kroger Co. Savings Plan

1014 Vine Street

Cincinnati, OH 45202

(Full title of the plan and the address of the plan)

The Kroger Co.

1014 Vine Street

Cincinnati, OH 45202

(Name of issuer of the securities held pursuant to the
plan and the address of its principal executive office)

Table of Contents

REQUIRED INFORMATION

Item 4. Plan Financial Statements and Schedules Prepared in Accordance with the Financial Reporting Requirements of ERISA.

Table of Contents

THE KROGER CO. SAVINGS PLAN

Financial Statements

And

Supplemental Schedules

December 31, 2008 and 2007

With

Report of Independent Registered

Public Accounting Firm

Table of Contents

THE KROGER CO. SAVINGS PLAN

Table of Contents

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	1
Financial Statements:	
<u>Net Assets Available for Benefits</u>	2
<u>Changes in Net Assets Available for Benefits</u>	3
<u>Notes to Financial Statements</u>	4 - 12
Supplemental Schedules:	
<u>Assets (Held at End of Year)</u>	13
<u>Reportable Transactions</u>	14

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Participants and Administrative Committee of

The Kroger Co. Savings Plan:

We have audited the accompanying statements of net assets available for benefits of The Kroger Co. Savings Plan as of December 31, 2008 and 2007, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2008 and 2007, and the changes in its net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental Schedule of Assets (Held at End of Year) and Schedule of Reportable Transactions are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio

June 25, 2009

Table of Contents**THE KROGER CO. SAVINGS PLAN**

Statements of Net Assets Available for Benefits

December 31, 2008 and 2007

(In Thousands)

	2008	2007
Assets:		
Cash	\$ 1,244	\$ 871
Investments, at fair value:		
Common stocks	922,249	1,000,170
Mutual funds	205,203	396,261
Interest in master trust	562,401	569,102
Collective trusts	144,036	316,870
Participant loans	42,914	42,976
Retirement date funds	94,194	46,702
Total investments	1,970,997	2,372,081
Receivables:		
Accrued income	19	463
Total assets	1,972,260	2,373,415
Liabilities:		
Administrative fees payable	268	397
Net assets available for benefits at fair value	1,971,992	2,373,018
Adjustment from fair value to contract value for interest in master trust relating to investment contracts	29,155	(7,182)
Net assets available for benefits	\$ 2,001,147	\$ 2,365,836

See accompanying notes to financial statements.

Table of Contents**THE KROGER CO. SAVINGS PLAN**

Statements of Changes in Net Assets Available for Benefits

Years Ended December 31, 2008 and 2007

(In Thousands)

	2008	2007
Additions:		
Contributions:		
Participants	\$ 71,879	\$ 72,318
	71,879	72,318
Investment income:		
Net appreciation (depreciation) in fair value of investments	(296,227)	208,950
Investment income - participation in a master trust	29,236	29,229
Dividends	5,090	40,178
Interest	15,524	14,763
	(246,377)	293,120
Net additions	(174,498)	365,438
Deductions:		
Transfer to (from) other plan	(27)	843,602
Benefits paid to participants	189,761	211,560
Administrative expenses	457	709
Net deductions	190,191	1,055,871
Net decrease	(364,689)	(690,433)
Net assets available for benefits:		
Beginning of year	2,365,836	3,056,269
End of year	\$ 2,001,147	\$ 2,365,836

See accompanying notes to financial statements.

Table of Contents

THE KROGER CO. SAVINGS PLAN

Notes to Financial Statements

1. Description of Plan:

The following description of The Kroger Co. Savings Plan (Plan) provides only general information. Participants should refer to the plan document for a more complete description of Plan provisions.

General

The Plan is sponsored by The Kroger Co., an Ohio corporation, and its wholly-owned subsidiaries (collectively the Company). The Plan is a defined contribution plan covering all employees of the Company who have attained age 21, have been employed 30 days, and have completed 72 hours of service, excluding those employees eligible to participate under another defined contribution pension plan sponsored by the Company. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

Employee Subject to certain limits, participants may contribute up to 75% (6% if the participant is a highly compensated employee as defined by the Internal Revenue Service) of annual compensation to the Plan. It is at the discretion of participants to modify and direct investments. Participants are eligible to make catch-up contributions beginning in the year in which they reach age 50. Participants are also permitted to deposit into the Plan distributions from other qualified plans.

Participant Accounts

Each participant account is credited with the participant contribution and an allocation of Plan earnings or losses. Allocations of earnings or losses are based upon the performance of the investment funds chosen by the participant. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

All accounts of a participant are fully vested at all times.

Table of Contents

Benefits

Payment of benefits can be made under various methods, depending upon the reason for the distribution, such as termination of service, death, or retirement, as well as other factors. At termination, those participants with a balance of less than or equal to \$1,000 will receive a single lump sum distribution. Absent specific elections by the participant, those with balances greater than \$1,000 and less than or equal to \$5,000 shall be distributed, in the form of a direct rollover, to an individual retirement account designated by the Plan Administrator. Those with balances greater than \$5,000 may elect to leave their funds in the Plan or choose other options. Participants are entitled to benefits beginning at normal retirement age (generally age 65). Benefits are recorded when paid. Unclaimed benefits are forfeited and are applied to pay Plan expenses. Forfeited unclaimed benefits are restored if a participant later establishes a valid benefit claim.

Participant Loans

The Plan permits participants to borrow from their vested account. The maximum amount that may be borrowed is the lesser of \$50,000 or 50% of the vested balance of the account. Loan terms range from 1-4 years or up to 6 years for the purchase of a primary residence. The loans are collateralized by the balance in the participant's account and bear interest at a rate of Prime plus 1.0%. The rate is changed quarterly and the Prime rate used for a quarter is the Prime rate on the last business day of the previous quarter. Principal and interest are paid through periodic payroll deductions.

2. Summary of Significant Accounting Policies:

Basis of accounting

The financial statements of the Plan are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Master Trust

Certain investments of the Plan, along with some investments of other plans of The Kroger Co. and its subsidiaries, are pooled for investment purposes in a master trust pursuant to an agreement dated July 1, 2004 (the Master Trust), between Merrill Lynch Trust Company, the trustee, and the Company.

Table of Contents

Investment valuation and income recognition

Investments in common stocks, mutual funds, collective trusts, and investment contracts are valued at fair value based on quoted market prices.

Purchases and sales of securities are recorded on a trade date basis. Gains or losses on sales of securities are based on average cost. Dividends are recorded on the ex-dividend date. Income from other investments is recorded as earned.

As described in Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and SOP94-4-1, *Reporting of Fully Benefit Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP), investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate a permitted transaction under the terms of the Plan. The Plan invests in investment contracts through The Kroger Defined Contribution Plan Master Trust. The Statement of Net Assets Available for Benefits presents the fair value of the investment in the Master Trust as well as the adjustment of the investment in the master trust from fair value to contract value relating to investment contracts. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

Administrative expenses

The Plan will pay the administrative costs and expenses of the Plan, including the trustee and management fees. Any expenses that are unable to be allocated to participants are paid by the Company.

3. Transfers:

During 2008 and 2007, participant balances of approximately \$(27,000) and \$843,602,000, respectively, were transferred to (from) The Kroger Co. 401(k) Retirement Savings Account Plan.

Table of Contents4. Investments:

The Plan provides for participant directed investments into common stock of The Kroger Co., mutual funds, collective trusts, stable value funds, and certain retirement date funds. Investments that represent 5% or more of the Plan's net assets as of December 31, 2008 and 2007 are as follows (in thousands):

	2008		2007
The Kroger Co. Common Stock	\$ 922,249	\$	1,000,170
Merrill Lynch Equity Index Trust XIII	\$ **	\$	168,664
Interest in Master Trust*	\$ 562,401	\$	569,102

 (*at fair value)

(**value is less than 5%)

During the years ended December 31, 2008 and 2007, Plan investments (including investments bought, sold and held during the year) depreciated by \$(296,227) in 2008 and appreciated by \$208,950 in 2007, as follows (in thousands):

	2008		2007
The Kroger Co. Common Stock	\$ (3,702)	\$	166,585
Collective trusts	(94,098)		21,158
Mutual funds	(153,771)		19,786
Retirement date funds	(44,656)		1,421
	\$ (296,227)	\$	208,950

5. Nonparticipant-Directed Investments:

Investments in The Kroger Co. common stock are generated from participant-directed contributions and Company matching contributions prior to July 1, 2004. Employee and employer amounts invested in The Kroger Co. common stock cannot be separately determined, but can be invested in any other investment option at any time at the election of the employee. Investments in The Kroger Co. common stock are considered nonparticipant-directed for disclosure purposes.

The information about the net assets and the significant components of the changes in net assets relating to the nonparticipant-directed investments in The Kroger Co. Common Stock Fund (Fund) is as follows (in thousands):

Edgar Filing: KROGER CO - Form 11-K

	2008		2007	
The Kroger Co. Common Stock				
Year-end holdings	\$	922,249	\$	1,000,170

Edgar Filing: KROGER CO - Form 11-K

Table of Contents

Change in net assets in the Fund related to The Kroger Co. Common Stock:

[all cash basis amounts except for net appreciation (depreciation)]

	2008	2007
Participant contributions	\$ 21,813	\$ 22,794
Employer contributions	0	0
Dividends	12,321	11,182
Loan interest	1,532	1,585
Net appreciation (depreciation)	(3,702)	166,585
Distributions to participants	(63,565)	(70,597)
Administrative expenses	(155)	(186)
Transfers to other funds, net	(46,235)	(196,460)
	\$ (77,921)	\$ (65,097)

6. Investment Contracts:

The Master Trust holds fourteen synthetic investment contracts which are managed by investment fund managers. The Master Trust also purchases wrapper contracts from financial institutions which provide assurance that crediting rates will never be less than zero. All Plans have an undivided interest in each investment contract. The investment contracts are fully benefit responsive. A fully benefit-responsive investment provides a liquidity guarantee by a financially responsible third party of principal and previously accrued interest for liquidations, transfers, loans, or withdrawals initiated by Plan participants under the terms of the ongoing Plan. Certain employer-initiated events (i.e. layoffs, mergers, bankruptcy, Plan termination) are not eligible for the liquidity guarantee.

In general, issuers may terminate the investment contracts and settle at other than contract value if the qualification status of the employer or plan changes, breach of material obligations under the contract and misrepresentation by the contract holder, or failure of the underlying portfolio to conform to the pre-established investment guidelines.

The Plan Administrator does not believe that the occurrence of any such event, which would limit the Plan's ability to transact at contract value with participants, is probable.

The following information relates to the Plan's interest in investment contracts (in thousands):

	2008	2007
Contract value	\$591,556	\$561,920
Fair value	\$562,401	\$569,102
Crediting interest rate range	.2% to 6.4%	4.3% to 13.6%
Current crediting rate	4.16%	5.32%
Average yield	4.27%	5.12%

Edgar Filing: KROGER CO - Form 11-K

The crediting interest rate range for the investment contracts is based upon the contract rate or a predetermined formula that factors in duration, market value, and book value of the investment. Certain of the crediting rates are adjusted quarterly. The minimum crediting interest rate for these investments is zero.

Table of Contents

In 2008 and 2007, the fair value of fixed income investments is calculated using the actual market values of the underlying securities, based on pricing from a third party.

The following is financial information with respect to the Master Trust:

December 31, 2008 and 2007 investment holdings (at fair value, in thousands):

	2008		2007
Cash and equivalents	\$ 146,262	\$	120,567
Fixed maturity synthetic guaranteed investment contracts	194,489		234,095
Constant duration synthetic guaranteed investment contracts	653,413		660,607
	\$ 994,164	\$	1,015,269

Net investment income of the Master Trust for the years ended December 31, 2008 and 2007 was \$51,444 and \$50,281 respectively. Certain amounts in 2007 have been reclassified to conform with the 2008 presentation.

The underlying investments within the synthetic contracts include corporate, government and mortgage backed debt securities.

As of December 31, 2008 and 2007, the Plan's interest in the net assets of the Master Trust was 56.57% and 56.05%, respectively.

7. Fair Value Measurements:

On January 1, 2008, the Plan adopted Statement of Financial Accounting Standards No. 157 (SFAS 157). For financial statement elements currently required to be measured at fair value, SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) regardless of whether an observable liquid market price exists.

SFAS 157 establishes a fair value hierarchy that categorizes the inputs to valuation techniques that are used to measure fair value into three levels:

Edgar Filing: KROGER CO - Form 11-K

- Level 1 includes observable inputs which reflect quoted prices for identical assets or liabilities in active markets at the measurement date.
- Level 2 includes observable inputs for assets or liabilities other than quoted prices included in Level 1 and it includes valuation techniques which use prices for similar assets and liabilities.
- Level 3 includes unobservable inputs which reflect the reporting entity's estimates of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

Table of Contents

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methods used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2008.

- Cash: The carrying value approximates fair value.
- Common Stocks: The fair values of these securities are based on observable market quotations for identical assets and are valued at the closing price reported on the active market on which the individual securities are traded.
- Mutual Funds: The fair values of these securities are primarily based on observable market quotations for identical assets and are valued at the closing price reported on the active market on which the individual securities are traded.
- Interest in Master Trust: The investments underlying the interest in the Master Trust include cash and cash equivalents, fixed maturity guaranteed investment contracts (GICs) and constant duration GIC. The fair value of the investments in the Master Trust is determined by fund managers based on the fair value of the underlying securities within the fund, which is typically the closing price or last bid price reported on the active market on which the individual securities are traded.
- Collective Trusts: The collective trust funds are public investment vehicles valued using a Net Asset Value (NAV) provided by the manager of each fund. The NAV is based on the underlying net assets owned by the fund, divided by the number of shares outstanding. The NAV's unit price is quoted on a private market that is not active. However, the NAV is based on the fair value of the underlying securities within the fund, which are traded on an active market, and valued at the closing price reported on the active market on which those individual securities are traded.
- Participant Loans: Participant loans are valued at their outstanding amortized balances, which approximate fair value.
- Retirement Date Funds: Retirement date funds are made up of investments in mutual funds and fixed income investments, and are valued in a manner consistent with that described above for Mutual Funds and the Interest in Master Trust.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuations methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value

measurement.

Edgar Filing: KROGER CO - Form 11-K

Table of Contents

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2008:

(in thousands)

Assets at Fair Value as of December 31, 2008 Using:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Common Stocks	\$ 922,249	\$ 922,249		
Mutual Funds	205,203	205,203		
Interest in Master Trust	562,401			
Cash and cash equivalents		82,878		
Fixed maturity GICs			\$ 110,118	
Constant duration GICs			369,405	
Collective trusts	144,036		144,036	
Participant Loans	42,914			\$ 42,914
Retirement Date Funds	94,194		94,194	
Total investments	\$ 1,970,997	\$ 1,210,330	\$ 717,753	\$ 42,914

The GICS shown above include wrap contracts, the fair value of which is immaterial.

For loans to participants measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2008, a reconciliation of the beginning and ending balances is as follows:

Fair Value Measurements using Significant Unobservable Inputs (Level 3)

	Participant Loans
Beginning balance, January 1, 2008	\$ 42,976
Issuances, maturities and settlements, net	(62)
Ending balance, December 31, 2008	\$ 42,914

8. Income Tax Status:

The Plan obtained a determination letter dated December 3, 2004, in which the Internal Revenue Service stated that the Plan, as then designed, complied with the applicable requirements of the Internal Revenue Code (IRC). The Plan has been amended since receiving this letter.

Edgar Filing: KROGER CO - Form 11-K

However, the Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC, including changes related to recent tax law changes included in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Therefore, no provision for income taxes has been included in the Plan's financial statements.

Table of Contents

9. Plan Termination:

Although it has not expressed any intent to do so, the Company has the right under the Plan to terminate the Plan at any time subject to the provisions of ERISA. In the event of any total or partial termination or discontinuance, the accounts of all affected participants shall remain fully vested and non-forfeitable.

10. Related-party and Party-in-interest Transactions (in thousands):

The Plan held, at fair value, \$922,249 and \$1,000,170 of The Kroger Co. common shares at December 31, 2008 and 2007, respectively.

The Plan purchased 8,621 and 5,209 shares of The Kroger Co. common shares at a cost of \$229,561 and \$144,106 in 2008 and 2007, respectively.

The Plan sold 10,638 and 13,428 shares of The Kroger Co. common shares for \$290,208 and \$362,528 with a realized gain of \$68,157 and \$141,326 in 2008 and 2007, respectively.

Merrill Lynch Trust Company, FSB and Merrill Lynch provide recordkeeping and investment management services to the Plan. Therefore, transactions with Merrill Lynch Trust Company, FSB and Merrill Lynch qualify as party-in-interest transactions.

11. Reconciliation of Financial Statements to Form 5500:

The following is a reconciliation of net assets available for plan benefits per the financial statements to the Form 5500 (in thousands):

	2008	2007
Net assets available for plan benefits per the financial statements	\$ 2,001,147	\$ 2,365,836
Adjustment from contract value to fair value for investments in Master Trust	(29,155)	7,182
Net assets available for plan benefits per the Form 5500	\$ 1,971,992	\$ 2,373,018

Net investment gain (loss) from master trust investment accounts on the Form 5500 will also reflect these adjustments.

Table of Contents

THE KROGER CO. SAVINGS PLAN

EIN: 31-0345740 Plan Number: 004

Schedule of Assets (Held at End of Year)

December 31, 2008

(In Thousands)

(a)	(b),(c) Investment description	(d) Cost	(e) Current value
	Interest in Master Trust	**	\$ 562,401
	Common stocks:		
*	The Kroger Co.***	\$ 423,842	922,249
			922,249
	Collective trusts:		
*	Merrill Lynch Mid Cap S&P 400 Index Trust 2	**	17,618
*	Merrill Lynch Equity Index Trust XIII	**	98,481
*	Merrill Lynch Small Cap Index CT Tier VII	**	14,704
*	Merrill Lynch International Index CT Trust 5	**	13,233
			144,036
	Mutual funds:		
	Large Cap Equity	**	99,166
	Dodge & Cox International ST	**	19,805
	Aberdeen Emerging Markets Fund	**	26,457
	AXA Rosenberg US Small	**	10,522
*	Blackrock Global Allocation I	**	44,801
	Temporary Investment Fund	**	4,452
			205,203
*	Participant loans, 5.5% to 11.0%, 1-6 year maturities		42,914
	Other:		
*	Retirement Date Funds	**	94,194
			\$ 1,970,997

* Indicates party-in-interest to the Plan.

** Cost of assets is not required to be disclosed as investment is participant directed.

*** Investment includes both participant and nonparticipant directed investments.

Table of Contents

THE KROGER CO. SAVINGS PLAN

EIN: 31-0345740 Plan Number: 004

Schedule H, Part IV, 4j - Schedule of Reportable Transactions

Year Ended December 31, 2008

(In Thousands)

(a) Identity of Party Involved	(b) Description of Asset	(c) Purchase Price	(d) Selling Price	(g) Cost of Asset	(h) Fair Value on Transaction Date	(i) Net Gain/(Loss)
Reporting Criterion III	Any series of transactions within the Plan year involving securities of the same issue that, when aggregated, involves an amount in excess of five percent of the current value of Plan assets.					
* The Kroger Co.	The Kroger Co. Common Stock Fund	\$ 229,561		\$ 229,561	\$ 229,561	
* The Kroger Co.	The Kroger Co. Common Stock Fund		\$ 290,208	\$ 222,051	\$ 290,208	\$ 68,157

* Indicates party-in-interest to the Plan.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

THE KROGER CO. SAVINGS PLAN

Date: June 26, 2009

By:

/s/ Paul Heldman
Paul Heldman
Chairman of the Administrative Committee

Table of Contents

EXHIBIT INDEX

Exhibit No.

23.1 Consent of Independent Registered Public Accounting Firm
