KROGER CO
Form 11-K
June 22, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

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

For the fiscal year ended December 31, 2014.

OR

o 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

The Kroger Co. 401(k) Retirement Savings Account 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)

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REQUIRED INFORMATION

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

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THE KROGER CO. 401(K) RETIREMENT SAVINGS ACCOUNT PLAN

Financial Statements

And

Supplemental Schedule

December 31, 2014 and 2013

With

Report of Independent Registered Public Accounting Firm

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THE KROGER CO. 401(K) RETIREMENT SAVINGS ACCOUNT PLAN

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Participants and Administrative Committee of

The Kroger Co. 401(k) Retirement Savings Account Plan:

We have audited the accompanying statements of net assets available for benefits of The Kroger Co. 401(k) Retirement Savings Account Plan (the Plan) as of December 31, 2014 and 2013, 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. We were not engaged to perform an audit of the Plan s internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2014 and 2013, 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.

The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2014 has been subjected to audit procedures performed in conjunction with the audit of the Plan s financial statements. The supplemental schedule is the responsibility of the Plan s management. Our procedures included determining whether the supplemental schedule reconcile to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, including its form and content, is presented in conformity with the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio

June 22, 2015

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THE KROGER CO. 401(K) RETIREMENT SAVINGS ACCOUNT PLAN

Statements of Net Assets Available for Benefits

December 31, 2014 and 2013

(In Thousands)

	2014	2013
Assets:		
Cash	$ 1,794	$ 1,292
Investments, at fair value:		
Interest in Master Trust	3,284,039	2,855,068
Receivables:		
Participant contributions	1,397	
Employer contributions	58,733	54,988
Notes receivable from participants	57,877	52,904
	118,007	107,892
Total assets	3,403,840	2,964,252
Liabilities:		
Administrative fees payable	52	172
Net assets available for benefits at fair value	3,403,788	2,964,080
Adjustment from fair value to contract value for interest in Master Trust relating to investment contracts	(12,451)	(11,144)
Net assets available for benefits	$ 3,391,337	$ 2,952,936

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THE KROGER CO. 401(K) RETIREMENT SAVINGS ACCOUNT PLAN

Statements of Changes in Net Assets Available for Benefits

Years Ended December 31, 2014 and 2013

(In Thousands)

	2014	2013
Additions:		
Participant contributions	$ 196,467	$ 180,043
Employer contributions	160,484	143,979
Investment income - participation in Master Trust	289,653	474,754
Interest income on notes receivable from participants	2,232	1,949
Deductions:		
Benefits paid to participants	(208,276)	(157,433)
Administrative expenses	(2,159)	(2,547)
Net increase	438,401	640,745
Net assets available for benefits:		
Beginning of year	2,952,936	2,312,233
Transfers to other plans		(42)
End of year	$ 3,391,337	$ 2,952,936

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THE KROGER CO. 401(K) RETIREMENT SAVINGS ACCOUNT PLAN

Notes to Financial Statements

(All dollar amounts are in thousands)

1. Description of Plan:

The following description of The Kroger Co. 401(k) Retirement Savings Account Plan (Plan) provides only general information. Participants should refer to the Plan document for a more complete description of Plan provisions.

General

The Plan, which began January 1, 2007, 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 within the 30-day period, excluding those employees eligible to participate under another qualified defined contribution plan or defined benefit pension plan sponsored by the Company. It is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Contributions

Participant

Subject to certain limits, participants may contribute up to 75% of compensation per pay period 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.

Employer

The Company will credit the participant s account with a match and/or an automatic contribution if the participant meets the eligibility requirements. The matching contribution is 100% of the first 3% of the participant s Plan compensation contributed as a salary deferral contribution, plus 50% of the next 2% of the participant s Plan compensation contributed as a salary deferral contribution. At the end of each plan year, the Company will, if necessary, make a true-up matching contribution in the first quarter of the following year. Subject to certain limits, the Company also pays an automatic contribution of 1% or 2% based on the participant s years of vesting service.

Participant Accounts

Each participant account is credited with the participant contribution, matching contribution (if any), automatic contribution (if any), 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

Participants are vested immediately in their voluntary contributions and rollover contributions plus actual earnings thereon. The participant s vested interest in Company matching or automatic contributions, if any, will be determined based on the participant s years of service with the employer as defined in the Plan document.

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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 one thousand dollars will receive a single lump sum distribution. Absent specific elections by the participant, those with balances greater than one thousand dollars and less than or equal to five thousand dollars 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 five thousand dollars 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.

Notes Receivable from Participants

The Plan permits participants to borrow from their vested account less all vested automatic contributions and matching contributions. The maximum amount that may be borrowed is the lesser of fifty thousand dollars 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.

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. Related fees are recorded as administrative expenses and are expensed when they are incurred. No allowance for credit losses has been recorded as of December 31, 2014 or 2013. If a participant ceases to make loan repayments and the plan administrator deems the participant loan to be in default, the participant loan balance is reduced and a benefit payment is recorded.

Forfeitures

Forfeited balances shall be applied in the following order: to restore the accounts of any participants who return to service of the Company and again become eligible employees prior to incurring a five year period of severance, to reduce administrative expenses of the Plan, and to reduce any Company Automatic Contributions for the Plan year. The balance of forfeitures was $12 and $11 at December 31, 2014 and 2013, respectively. These amounts will be used to reduce administrative expenses of the Plan.

During 2014 and 2013, forfeitures of $487 and $723, respectively, were used to reduce administrative expenses of the Plan.

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

The investments of the Plan, along with 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, between Bank of America N.A., as successor in interest to Merrill Lynch Bank & Trust Co., FSB, the trustee, and the Company   The Kroger Defined Contribution Plan Master

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Trust (the Master Trust).

Investment valuation and income recognition

The Plan s investments within the Master Trust are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan s Administrative Committee determines the Plan s valuation policies utilizing information provided by the investment advisors and custodian. See Note 6 for discussion of fair value measurements.

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. Net appreciation includes the Plan s gains and losses on investments bought and sold as well as held during the year.

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 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 preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 custodian and management fees. Any expenses that are unable to be allocated to participants are paid by the Company and are excluded from these financial statements. Fees related to the administration of notes receivable from participants and distributions to participants are charged directly to the participant s account and are included in administrative expenses.

Subsequent events

The Company evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through the date on which the financial statements were available to be issued.

3. 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, through the investment in the Master Trust. Investments that represent 5% or more of the Plan s net assets as of December 31, 2014 and 2013 are as follows:

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		2014		2013
Interest in Master Trust, at fair value	$	3,284,039	$	2,855,068

Included in investment income from the Plan s participation in the Master Trust is net appreciation from investments bought, sold and held during the year of $270,237 and $457,520 for the years ending December 31, 2014 and 2013, respectively.

4. Investment Contracts:

The Master Trust holds several 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.