

KROGER CO
Form 10-Q
December 17, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 7, 2015

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

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(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

31-0345740
(I.R.S. Employer
Identification No.)

1014 Vine Street, Cincinnati, OH 45202

(Address of principal executive offices)

(Zip Code)

(513) 762-4000

(Registrant's telephone number, including area code)

Unchanged

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

There were 974,722,765 shares of Common Stock (\$1 par value) outstanding as of December 15, 2015.

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 7, 2015	November 8, 2014	November 7, 2015	November 8, 2014
Sales	\$ 25,075	\$ 24,987	\$ 83,665	\$ 83,258
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	19,478	19,764	65,303	65,965
Operating, general and administrative	4,169	3,954	13,591	13,042
Rent	172	162	542	545
Depreciation and amortization	484	456	1,581	1,481
Operating profit	772	651	2,648	2,225
Interest expense	107	114	369	373
Earnings before income tax expense	665	537	2,279	1,852
Income tax expense	238	172	795	628
Net earnings including noncontrolling interests	427	365	1,484	1,224
Net earnings (loss) attributable to noncontrolling interests	(1)	3	4	14
Net earnings attributable to The Kroger Co.	\$ 428	\$ 362	\$ 1,480	\$ 1,210
Net earnings attributable to The Kroger Co. per basic common share	\$ 0.44	\$ 0.37	\$ 1.52	\$ 1.22
Average number of common shares used in basic calculation	965	972	966	983
Net earnings attributable to The Kroger Co. per diluted common share	\$ 0.43	\$ 0.36	\$ 1.50	\$ 1.20
Average number of common shares used in diluted calculation	979	984	980	995
Dividends declared per common share	\$ 0.105	\$ 0.093	\$ 0.303	\$ 0.258

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

THE KROGER CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions and unaudited)

	Third Quarter Ended		Three Quarters Ended	
	November 7, 2015	November 8, 2014	November 7, 2015	November 8, 2014
Net earnings including noncontrolling interests	\$ 427	\$ 365	\$ 1,484	\$ 1,224
Other comprehensive income (loss)				
Unrealized gains on available for sale securities, net of income tax(1)	1	5	8	7
Amortization of amounts included in net periodic pension expense, net of income tax(2)	12	5	41	18
Unrealized gains and losses on cash flow hedging activities, net of income tax(3)	(3)	4	14	4
Total other comprehensive income	10	14	63	29
Comprehensive income	437	379	1,547	1,253
Comprehensive income (loss) attributable to noncontrolling interests	(1)	3	4	14
Comprehensive income attributable to The Kroger Co.	\$ 438	\$ 376	\$ 1,543	\$ 1,239

(1) Amount is net of tax of \$1 for the third quarter of 2015 and \$4 for the third quarter of 2014. Amount is net of tax of \$5 for the first three quarters of 2015 and \$4 for the first three quarters of 2014.

(2) Amount is net of tax of \$8 for the third quarter of 2015 and \$3 for the third quarter of 2014. Amount is net of tax of \$25 for the first three quarters of 2015 and \$11 for the first three quarters of 2014.

(3) Amount is net of tax of \$(2) for the third quarter of 2015 and \$2 for the third quarter of 2014. Amount is net of tax of \$8 for the first three quarters of 2015 and \$2 for the first three quarters of 2014.

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 7, 2015	January 31, 2015
ASSETS		
Current assets		
Cash and temporary cash investments	\$ 274	\$ 268
Store deposits in-transit	962	988
Receivables	1,253	1,266
FIFO inventory	7,626	6,933
LIFO reserve	(1,302)	(1,245)
Prepaid and other current assets	464	701
Total current assets	9,277	8,911
Property, plant and equipment, net	18,926	17,912
Intangibles, net	734	757
Goodwill	2,310	2,304
Other assets	660	613
Total Assets	\$ 31,907	\$ 30,497
LIABILITIES		
Current liabilities		
Current portion of long-term debt including obligations under capital leases and financing obligations	\$ 2,295	\$ 1,885
Trade accounts payable	5,866	5,052
Accrued salaries and wages	1,287	1,291
Deferred income taxes	286	287
Other current liabilities	3,218	2,888
Total current liabilities	12,952	11,403
Long-term debt including obligations under capital leases and financing obligations		
Face-value of long-term debt including obligations under capital leases and financing obligations	8,965	9,712
Adjustment to reflect fair-value interest rate hedges	(1)	—
Long-term debt including obligations under capital leases and financing obligations	8,964	9,712
Deferred income taxes	1,096	1,209
Pension and postretirement benefit obligations	1,458	1,463
Other long-term liabilities	1,192	1,268
Total Liabilities	25,662	25,055
Commitments and contingencies (see Note 9)		
SHAREOWNERS EQUITY		
Preferred shares, \$100 per share, 5 shares authorized and unissued	—	—
Common shares, \$1 par per share, 2,000 shares authorized; 1,918 shares issued in 2015 and 2014	1,918	1,918

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Additional paid-in capital	2,948	2,748
Accumulated other comprehensive loss	(749)	(812)
Accumulated earnings	13,554	12,367
Common shares in treasury, at cost, 952 shares in 2015 and 944 shares in 2014	(11,400)	(10,809)
Total Shareowners Equity - The Kroger Co.	6,271	5,412
Noncontrolling interests	(26)	30
Total Equity	6,245	5,442
Total Liabilities and Equity	\$ 31,907	\$ 30,497

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 7, 2015	November 8, 2014
Cash Flows from Operating Activities:		
Net earnings including noncontrolling interests	\$ 1,484	\$ 1,224
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	1,581	1,481
LIFO charge	58	138
Stock-based employee compensation	130	115
Expense for Company-sponsored pension plans	79	30
Deferred income taxes	(149)	(139)
Other	67	75
Changes in operating assets and liabilities net of effects from acquisitions of businesses:		
Store deposits in-transit	26	19
Receivables	1	(28)
Inventories	(693)	(580)
Prepaid and other current assets	242	302
Trade accounts payable	814	482
Accrued expenses	161	254
Income taxes receivable and payable	45	(32)
Other	(80)	43
Net cash provided by operating activities	3,766	3,384
Cash Flows from Investing Activities:		
Payments for property and equipment, including payments for lease buyouts	(2,	