

KROGER CO
Form 11-K
June 28, 2018
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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, 2017.

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, 2017 and 2016

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 Retirement Management Committee of

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

Opinion on the Financial Statements

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, 2017 and 2016, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements and schedule of assets held at end of year (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on the Plan's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Supplemental Information

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The accompanying supplemental schedule of assets (held at end of year) 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 audit procedures included determining whether the supplemental schedule reconciles 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.

We have served as the Plan's auditor since 2007.
Cincinnati, Ohio

June 28, 2018

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

Statements of Net Assets Available for Benefits

December 31, 2017 and 2016

(In Thousands)

	2017	2016
Assets:		
Cash	\$	\$ 1,749
Investments, at fair value:		
Interest in Master Trust	4,598,016	3,500,444
Investments, at contract value:		
Interest in Master Trust	339,609	350,205
Receivables:		
Employer contributions	66,073	65,376
Notes receivable from participants	72,388	66,312
	138,461	131,688
Transfers in transit		321,483
Total assets	5,076,086	4,305,569
Liabilities:		
Administrative fees payable	535	40
Net assets available for benefits	\$ 5,075,551	\$ 4,305,529

See accompanying notes to financial statements.

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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, 2017 and 2016

(In Thousands)

	2017	2016
Additions:		
Participant contributions	\$ 384,536	\$ 246,189
Employer contributions	193,442	178,156
Investment income - participation in Master Trust	558,339	153,773
Interest income on notes receivable from participants	3,017	2,626
Deductions:		
Benefits paid to participants	(366,677)	(230,531)
Administrative expenses	(2,635)	(1,733)
Net increase	770,022	348,480
Net assets available for benefits:		
Beginning of year	4,305,529	3,635,557
Transfers to/from other plans		321,492
End of year	\$ 5,075,551	\$ 4,305,529

See accompanying notes to financial statements.

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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 and completed 90 days of service, excluding those employees eligible to participate under another company sponsored retirement plan. Prior to the amendment on January 1, 2017, employees who had attained age 21, had been employed 30 days, and had completed 72 hours of service within the 30-day period, excluding those employees eligible to participate under another company sponsored retirement plan, were eligible for the Plan. 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

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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.

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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.

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, 2017 or 2016. 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.

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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 \$147 and \$16 at December 31, 2017 and 2016, respectively. These amounts will be used to reduce administrative expenses of the Plan.

During 2017 and 2016, forfeitures of \$310 and \$285, 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 October 15, 2008, between The Northern Trust Company, the trustee, and the Company. The Kroger Defined Contribution Plan Master Trust (the Master Trust).

Investment valuation and income recognition

The Plan's investments within the Master Trust are stated at fair value, except for fully benefit-responsive investment contracts which are reported at contract 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 Retirement Management Committee determines the Plan's valuation policies utilizing information provided by the investment advisors and custodian. See Note 5 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, except for fully benefit-responsive investment contracts. 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

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transaction under the terms of the Plan. The Plan invests in investment contracts through the Master Trust.

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.

Accounting change

Recently issued accounting pronouncements In February 2017, the FASB issued ASU 2017-06, Plan Accounting: Defined Benefit Pension Plans (Topic 960): Employee Benefit Plan Master Trust Reporting. The amendments in this update require a plan's interest in a master trust and any change in that interest to be presented in separate line items in the statements of net assets available for benefits and in the statements of changes in net assets available for benefits, respectively. Additionally, ASU 2017-06 requires that all plans disclose the dollar amount of their interest in each of those general types of investments, which supplements the existing requirement to disclose the master trust's balances in each general type of investments. The amendments in ASU 2017-06 are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Plan elected to early adopt ASU 2017-06, applied retrospectively to all periods presented. This change has no impact on net assets available for benefits.

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. Investment Contracts:

The Master Trust holds several synthetic investment contracts which are managed by investment fund managers. The key difference between a synthetic investment contract and a traditional investment contract is that the Master Trust holds the underlying assets in a synthetic investment contract. The Master Trust also purchases wrapper contracts from financial institutions which provide assurance that crediting rates will never be less than zero.

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All plans have an undivided interest in each investment contract. The investment contracts are fully benefit-responsive and therefore are reported at contract value. 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.

4. Master Trust:

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

December 31, 2017 and 2016 investment holdings:

	2017		2016	
	Master Trust Balance	Plan's Interest in Master Trust Balances	Master Trust Balance	Plan's Interest in Master Trust Balances
Investments at Fair Value:				
Common Stock	\$ 1,474,243	\$ 357,198	\$ 2,722,431	\$ 839,101
Mutual Funds			210,729	132,087
Separately Managed Account	1,636,036	973,790		
Collective Trusts			689,357	350,276
Retirement Date Funds	3,809,353	3,267,028	2,564,300	2,178,980
Total Investments at Fair Value	\$ 6,919,632	\$ 4,598,016	\$ 6,186,817	\$ 3,500,444
Investments at Contract Value:				
Cash and Equivalents	\$ 18,222	\$ 5,690	\$ 51,571	\$ 15,921
Fixed Maturity Synthetic GICS	131,617	41,102	151,200	46,678
Constant Duration Synthetic GICS	937,679	292,817	931,615	287,606
Total Investments at Contract Value:	\$ 1,087,518	\$ 339,609	\$ 1,134,386	\$ 350,205
Total Investments:	\$ 8,007,150	\$ 4,937,625	\$ 7,321,203	\$ 3,850,649

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

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Statement of Changes in Net Assets of the Master Trust:

	2017	2016
Net appreciation/depreciation in investments	\$ 419,489	\$ (149,480)
Dividends	47,800	60,775
Net investment income/loss	467,289	(88,705)
Transfers in (out):		
Contributions	668,888	514,851
Interest from loans	11,272	4,820
Benefit payments	(783,291)	(562,752)
Administrative expenses	(5,976)	(5,807)
Net transfers out	(109,107)	(48,888)
Transfers in from other plans	327,765	
Net increase/decrease	685,947	(137,593)
Net assets:		
Beginning of year	7,321,203	7,458,796
End of year	\$ 8,007,150	\$ 7,321,203

5. Fair Value Measurements:

For financial statement elements currently required to be measured at fair value, Financial Accounting Standards Board (FASB) defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standards define 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.

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

- 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.

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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.

Participants may direct their investments into Kroger common stock, retirement date funds, or separately managed accounts. The underlying investments in the retirement date funds and separately managed accounts include mutual funds, common collective trusts, and guaranteed

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investment contracts as described herein. The retirement date funds and separately managed accounts are valued at NAV as a practical expedient.

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, 2017 and 2016.

- Cash and Cash Equivalents: The carrying value approximates fair value.
- Common Stock: 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.
- Collective Trusts: The collective trust funds are public investment vehicles valued using a Net Asset Value (NAV), as provided by the manager of each fund, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of 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. The significant investment strategies of the funds are as described in the financial statements provided by each fund. There are no restrictions on redemptions from these funds.

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 valuation 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.

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While all the investments of the participating plans are deemed part of the Master Trust, each plan does maintain a separate accounting of its share of the investments in the Master Trust.

The following tables set forth by level, within the fair value hierarchy, the Master Trust's assets at fair value as of December 31, 2017 and 2016:

Fair Value Measurements:

Investments in Master Trust:	Total	Assets at Fair Value at December 31, 2017:			Assets at NAV
		Level 1	Level 2	Level 3	
Common Stock	\$ 1,474,243	\$ 1,474,243	\$	\$	\$
Separately Managed Accounts	1,636,036				1,636,036
Retirement Date Funds	3,809,353				3,809,353
Total investments in Master Trust measured in fair value	\$ 6,919,632	\$ 1,474,243	\$	\$	\$ 5,445,389

Investments in Master Trust:	Total	Assets at Fair Value at December 31, 2016:			Assets at NAV
		Level 1	Level 2	Level 3	
Common Stock	\$ 2,722,431	\$ 2,722,431	\$	\$	\$
Mutual Funds	210,729	210,729			
Collective Trusts	689,357				689,357
Retirement Date Funds	2,564,300				2,564,300
Total investments in Master Trust measured in fair value	\$ 6,186,817	\$ 2,933,160	\$	\$	\$ 3,253,657

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The following table summarizes investments for which fair value is measured using the NAV per share practical expedient as of December 31, 2017 and 2016, respectively:

December 31, 2017		Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Separately managed accounts(a)		\$ 1,636,036	n/a	Daily	1 day
Retirement date funds(b)		\$ 3,809,353	n/a	Daily	1 day

December 31, 2016		Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Collective trust fund	BlackRock MSCI ACWI IMI Fund	\$ 493,197	n/a	Daily	T+3
Collective trust fund	BlackRock Global Allocation Fund	\$ 138,290	n/a	Daily	T+3
Collective trust fund	Aggregate Bond Index Fund	\$ 57,870	n/a	Daily	1 day
Retirement date funds(b)		\$ 2,564,300	n/a	Daily	1 day

(a) This is made up of Kroger 401k plan specific white labeled fund offerings. The underlying assets of the funds consist of mutual funds, collective trusts, and separate account vehicles with varying investment strategies. The investments in the funds are reviewed regularly and adjusted as necessary.

(b) The primary objective of these funds is to provide an appropriate asset mix for a participant given the participant's age and retirement year. The underlying assets of the funds consist of mutual funds, collective trusts, and separate account vehicles. As time moves closer to a participant's retirement date, the investments in the funds are adjusted automatically to become more conservative, with a higher portion invested in bonds and shorter-term investments and less in stocks. The investments in the funds are reviewed regularly and adjusted as necessary. The focus of the funds changes from growing assets to generating income and protecting investments as the retirement date approaches.

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6. Income Tax Status:

The Plan obtained its latest determination letter dated June 3, 2016, in which the Internal Revenue Service (IRS) stated that the Plan, as then designed, complied with the applicable requirements of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving the determination letter, the Plan Administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC. Therefore, no provision of income taxes has been included in the Plan's financial statements.

7. Risks and Uncertainties:

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

8. 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 become fully vested and non-forfeitable.

9. Related-party and Party-in-interest Transactions:

The Plan's portion of its interest in the Master Trust included \$356,927 and \$482,261 of The Kroger Co. common shares at December 31, 2017 and 2016, respectively, at fair value.

The Plan purchased 1,618,503 and 5,968,435 common shares of The Kroger Co. at a cost of \$42,185 and \$214,875 in 2017 and 2016, respectively, through its interest in the Master Trust.

The Plan sold 2,411,764 and 5,032,034 common shares of The Kroger Co. for \$65,501 and \$178,013 with a realized gain of \$6,132 and \$15,450 in 2017 and 2016, respectively, through its interest in the Master Trust.

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Bank of America, N.A. and Merrill Lynch provide recordkeeping and investment management services to the Plan. Therefore, transactions with Bank of America, N.A. and Merrill Lynch qualify as party-in-interest transactions.

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

EIN: 31-0345740 Plan Number: 010

Schedule H, Part IV, 4i - Schedule of Assets (Held at End of Year)

December 31, 2017

(In Thousands)

(a)	(b),(c) Investment description	(d) Cost	(e) Current value
	Interest in Master Trust	**	\$ 4,937,625
*	Participant loans, 4.25% to 10.5%, 1-6 year maturities	\$	72,388
			\$ 5,010,013

* Indicates party-in-interest to the Plan.

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

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EXHIBIT INDEX

Exhibit No.

23.1 Consent of Independent Registered Public Accounting Firm

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SIGNATURES

Pursuant to the requirements of the Securities 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. 401(k) RETIREMENT SAVINGS ACCOUNT PLAN

Date: June 28, 2018

By:

/s/ Theresa Monti
Theresa Monti

Chairman of the Administrative Committee
