

KROGER CO
Form DEF 14A
May 16, 2005

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934**

Filed by the Registrant

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Check the appropriate box:

- Preliminary Proxy Statement Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
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THE KROGER CO.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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PROXY

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

PROXY STATEMENT

AND

2004 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

(in millions except per share data and percentages)

Fiscal Year	2004 (1)	2003 (1)	Percent Change (2)
Sales	\$ 56,434	\$ 53,791	4.9%
Operating Profit	\$ 847	\$ 1,370	(38.2)%
Net earnings (loss) per share	\$ (0.14)	\$ 0.41	N/A
Average shares used in calculation	736	754	(2.4)%
Net cash provided by operating activities	\$ 2,330	\$ 2,215	5.2%
Capital expenditures, excluding acquisitions and lease transactions	\$ 1,615	\$ 2,000	(19.3)%
Identical sales excluding strike effect (3)	\$ 43,462	\$ 42,338	2.7%
Identical sales excluding supermarket fuel and strike effect (3)	\$ 41,428	\$ 40,921	1.2%
Comparable store sales excluding strike effect (4)	\$ 44,796	\$ 43,428	3.2%
Comparable food store sales excluding supermarket fuel and strike effect (4)	\$ 42,687	\$ 41,993	1.7%

- (1) The results as presented were affected by certain income and expense items that fluctuated between periods, including the asset and goodwill impairment charges and the effect of labor disputes (Refer to our Management's Discussion and Analysis of Financial Condition and Results of Operations in the accompanying annual report beginning at page A-5).
- (2) The percent change calculations were based on the rounded numbers as presented.
- (3) The Company defines a food store as an identical store when the store has been in operation and has not been expanded or relocated for five full quarters. Annualized identical food store sales are calculated as a summation of four quarters of identical sales. The results exclude stores affected by labor disputes in southern California and West Virginia.
- (4) The Company defines a food store as a comparable store when the store has been in operation for five full quarters, including expansions and relocations. Annualized comparable food store sales are calculated as a summation of four quarters of comparable sales. The results exclude stores affected by labor disputes in southern California and West Virginia.

SAVE TIME AND MONEY

Shareholders can receive proxy materials more quickly, reduce the time it takes to tabulate votes and reduce the cost to your Company. The SEC's rules permit you to elect to receive proxy materials electronically and to vote your proxy electronically over the Internet or through the use of the telephone. The Internet option is the least expensive and most convenient option available, and we encourage you to use this option. If you would like to receive your proxy materials electronically, simply mark the appropriate box on the front of your proxy card (or your voter instruction form, if you hold your shares at a broker or bank). You may revoke your election at any time.

(recycle graphic) COVER PRINTED ON RECYCLED PAPER

TO OUR FELLOW SHAREHOLDERS:

Fiscal 2004 was a year of mixed results for Kroger. Our Company confronted a variety of challenges that included intense price competition, aggressive supercenter expansion, the increasing fragmentation of retail formats, and rising health care and pension costs.

Kroger and our associates are meeting these challenges by working harder than ever to provide our customers with consistently high levels of service, selection and value. Whether it's speeding up the checkout process, making sure our stores have the right products always in stock, or rewarding our best customers with special savings, we're committed to making sure that everything we do, every decision we make, positively influences the way our customers feel about Kroger.

Our focus on placing the customer first resulted in identical food-store sales growth of 1.2%, excluding the effect of fuel and stores in southern California recovering from a labor dispute. This is well ahead of the results posted by many of our traditional supermarket competitors last year. More importantly, Kroger's identical food-store sales have shown sequential improvement for seven of the past eight quarters. This performance is a clear sign that Kroger's strategic focus on fulfilling the needs of our customers is generating positive results and helping to set Kroger apart from our competitors. Our outlook for 2005 reflects our confidence in this plan.

We were also pleased with Kroger's improving trends in operating, general and administrative (OG&A) costs last year. This improvement resulted from our ongoing cost containment efforts and the leverage from our sales growth. We expect a reduction in our OG&A rate in 2005, particularly as we leverage increasing sales and cost reductions in key areas of our business.

Kroger's strong sales performance, however, came at a cost as gross margin declined 97 basis points in 2004. Higher fuel sales that carry a low gross profit rate contributed to the decline. Other factors included Kroger's continued investment in lower retail prices for our customers and our recovery efforts in southern California.

In 2005, Kroger is determined to maintain our sales momentum while improving earnings. We have taken a number of internal steps to better balance our gross profit investments with cost reductions. Our strategy contains many non-price elements, and our incentive plan for 2005 strongly motivates our divisions to execute broadly on these non-price elements.

One aspect of our gross margin that does please us is the continued progress we are making on shrink reduction particularly in Grocery and Drug/General Merchandise. Across the Company, our associates are attacking shrink with a renewed focus and seeing meaningful improvement. We're giving our department heads and other associates the tools they need to make good business decisions to reduce shrink and improve sales. We expect to deliver additional shrink savings in 2005.

SOUTHERN CALIFORNIA

In southern California, we continue working to rebuild our business following the 141-day labor dispute that ended in February 2004. Ralphs and Food 4 Less have faced one of the most challenging periods in their proud history. They have confronted a variety of obstacles including promotional battles, personnel changes and morale issues that would overwhelm many retailers. Yet our Ralphs and Food 4 Less teams have

tackled every issue head-on.

Admittedly, our recovery in southern California has been slower than expected. Our identical food-store sales have not yet returned to pre-strike levels. However, we are making progress. We believe southern California is a great market for us and we have very strong franchises there. We have great confidence in both our associates in southern California and our business plan for that region. Both are keys to our success.

OPERATING REVIEW

For fiscal 2004, sales increased 4.9% to \$56.4 billion. Kroger reported a net loss of \$100.4 million, or \$0.14 per share, compared to net earnings of \$312.0 million, or \$0.41 per diluted share, in fiscal 2003. Results for both years include certain items and the effect of labor disputes. Additional information is provided in the Notes to Consolidated Financial Statements contained in the accompanying annual report.

Despite the net loss in 2004, Kroger produced strong cash flow, enabling the Company to continue our financial triple play of reducing total debt by \$392.6 million, repurchasing \$318.7 million in stock, and investing \$1.6 billion in capital projects.

During 2004, Kroger opened, expanded, relocated or acquired 111 food stores; remodeled 135 stores; and closed 79 stores, including 56 operational closings. Net square footage at food stores increased 1.2%. At the end of fiscal 2004, Kroger operated (either directly or through subsidiaries, franchise agreements, or operating agreements) 2,532 supermarkets and multi-department stores under nearly two dozen banners; 795 convenience stores; 436 fine jewelry stores; 536 supermarket fuel centers; and 42 food processing plants.

PROGRESS IN LABOR RELATIONS

In 2004, Kroger and the United Food & Commercial Workers Union (UFCW) reached agreement on major contracts covering more than 97,000 associates. In each case, Kroger continued to make progress toward our goal of labor cost competitiveness. These new agreements contained a variety of measures including modest cost sharing by our associates for health care benefits and limits on cost increases in health care plans to bring our labor costs more in line with our competition.

We continue to be committed to achieving a cost structure that enables us to grow our business and create good jobs, while providing our associates with competitive wages and benefits. Challenges remain in this area, and we will continue to address those issues during negotiations on a market-by-market basis.

FOCUS ON OUR CUSTOMERS

Kroger's growth strategy is squarely focused on consistently meeting the needs of our customers through improved value, selection and service. We are targeting the areas of our business that our customers have told us are most important to them.

One way Kroger is delivering additional value is through our customer loyalty program. Over several years, we have accumulated a substantial volume of consumer data through our loyalty cards. In fact, with 40% of all U.S. households holding one of our shopper cards, Kroger today boasts one of the largest retail customer databases in America. This data provides us with valuable insight into our customers' shopping behaviors. Our partnership with dunnhumby, the data analysis firm from the United Kingdom, is the key to unlocking that insight and creating value for our customers and our Company. This unique partnership allows Kroger to segment our customer base and design customized offerings that speak to the individual needs of each segment. It also gives us the tools to target our promotional dollars and pricing investments toward our most profitable customers. Although we are in the early stages of utilizing this partnership to enhance both the volume and profitability of our business, it is clear that customer data analysis is enormously important to Kroger's future.

But valuable savings and low prices are just one of the key components to Kroger's strategy. Our customers also tell us that having a wide selection of products in stock ranging from organics and natural foods to kitchen gadgets and seasonal merchandise is an important reason they shop with us. In response to customers' growing

appetite for innovative foods sold under our own brands, Kroger last year introduced 765 new items ranging from our Private Selection® specialty meats and cheeses to diet colas under the Big K brand. Today we offer approximately 8,000 private-label products, most of which are made in one of our own 42 manufacturing facilities. Customers are increasingly recognizing the quality and value of our private-label lineup. At year-end, Kroger's private-label brands comprised 24.6% of all grocery dollar sales.

Our entire team—buyers, category managers, store associates, information systems, logistics, manufacturers and direct-store delivery vendors—is working together to ensure our stores are in stock every day on the items our customers buy most.

At a time when competition among food retailers is tougher than ever, great customer service—another key element of Kroger's strategy—has never been more important. That's why we're investing in additional training and development for associates, especially the team leaders in our stores. We're giving associates at every level of the organization the tools and support they need to be successful.

BUSINESS OUTLOOK FOR 2005

Kroger enters 2005 with improving sales momentum and a clear strategic vision. We are improving customer traffic in our stores, and selling more to the customers who already are there. Our innovative merchandising programs and industry-leading corporate brands are gaining momentum. Our entire organization is doing a better job of managing costs and improving productivity. These cost savings can be reinvested in our business in ways that will benefit our customers. And we have the financial resources necessary to continue building our business for the future.

In 2005, the successful execution of our strategy will be clearly evident in Kroger's financial performance. We expect net earnings for 2005 to exceed \$1.21 per fully diluted share. Our projected earnings growth will be fueled by substantial improvement in our southern California operations, growth in the balance of the Company, share repurchase, and lower interest expense. We also expect identical food-store sales, excluding fuel, to grow more than 2.0%.

COMMUNITY ACTIVITIES

Kroger understands the importance of investing in the communities where our customers and associates live and work. In 2004, the Company—through its associates, customers, foundations and operating divisions—contributed nearly \$126 million to local communities and non-profits as part of our Neighbor to Neighbor charitable giving program.

Kroger's charitable giving focuses on five key areas: hunger relief; K-12 education; advancement of women and minorities; women's health; and grassroots service organizations. Among the programs that Kroger sponsored last year:

Our divisions work closely with more than 40 regional food banks affiliated with America's Second Harvest, the nation's largest domestic hunger relief organization. Last year, the Company donated 28 million pounds of food valued at \$43 million. This ranks as the largest donation in Kroger's history.

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Our divisions contributed more than \$17 million to local schools and educational initiatives through cash and product donations, foundation grants, and discounted gift certificates and rebate programs. This fundraising program is Kroger's largest community activity, with more than 25,000 schools and other organizations in Kroger markets participating.

Employee donations and in-store fundraising generated \$24 million in contributions to support local campaigns that included breast cancer research, the United Negro College Fund, disaster relief agencies and children's hospitals.

Approximately 1,800 grants totaling \$5.0 million were awarded in 2004 by The Kroger Co. Foundation, Ralphs/Food 4 Less Foundation and the Fred Meyer Foundation. Grants are made to organizations located in communities where the Company has operations.

Kroger raised \$1.7 million from customers and associates to help victims of the tsunami in southern Asia and eastern Africa. Customer donations were accepted at more than 3,300 stores. The Company's three foundations matched our associates' contributions, bringing Kroger's total support to nearly \$2 million. All of the money collected was contributed to the American Red Cross International Response Fund in support of tsunami relief efforts.

Each year Kroger recognizes associates who have made outstanding contributions to their communities. We congratulate the winners of the Kroger Community Service Award for 2004:

Felix Turner, Atlanta Division

Stacy Burris, Central Division

Yvonne Steinhauer, Cincinnati/Dayton Division

T.J. Reece, City Market

Natasha Yancey, Delta Division

Anne Scuitte, Dillon Stores

Robin Wiley, Food 4 Less

Darrell Murphy, Fred Meyer

Jaime Conkel, Fry's

Karen Henry, Great Lakes Division

John Burt, Jay C Food Stores

JoAnn Kidd, King Soopers

Paul Marretti, Mid-Atlantic Division

Becky Thomas, Mid-South Division

Ron Buell, QFC

Erin Alberty, Ralphs

Betty Lou Lawson, Smith's

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Store 747 in Sulphur, Louisiana, Southwest Division

Margaret Beatty, Winchester Farms Dairy

Kenetha Bryant, Country Oven Bakery

Gary Dryer, State Ave.

Vicky Ledford, Layton Dairy

Garry Cutright, General Office

PROMOTIONS & RETIREMENTS

Over the past year, Kroger announced several executive promotions at the corporate and divisional levels. Donald E. Becker was promoted to Executive Vice President, with responsibility for Kroger's overall merchandising. He previously served as Senior Vice President, overseeing six retail operating divisions. John Burgon was promoted to Senior Vice President, overseeing five operating divisions. He previously led our Ralphs Grocery Company and King Soopers divisions. Jon C. Flora was promoted to Senior Vice President, with responsibility for several retail operating divisions. Mr. Flora previously served as President of Kroger's Great Lakes division. Paul Scutt was promoted to

Senior Vice President of the Company. Mr. Scutt, who had served as Group Vice President of retail operations, continues to be responsible for identifying and coordinating best practices at the Company's 2,532 food stores. Mike Ellis was promoted to Group Vice President of Grocery, Drug/General Merchandise and Pharmacy Merchandising and Procurement. He previously served as Senior Vice President, Food Group, for Fred Meyer Stores.

Dave Hirz was promoted to President of Ralphs after having served for six years as President of Food 4 Less, the Company's price-impact warehouse division. Jay A. Cummins was promoted to President of Food 4 Less. Prior to his promotion, he served as Group Vice President and General Manager of Food 4 Less Midwest division in the Chicago area. Bruce A. Macaulay was promoted to President of the Great Lakes division, based in Columbus. Mr. Macaulay previously served as Group Vice President of Grocery/Drug/General Merchandise/Pharmacy Merchandising and Procurement at Kroger's corporate office in Cincinnati. Geoffrey J. Covert was promoted to President of the Cincinnati/Dayton division. He has held several positions with Kroger, including Vice President of Grocery Products, Group Vice President and President of Kroger manufacturing, and Senior Vice President.

Joseph A. Pichler, who helped guide Kroger through a financial restructuring in 1988 and a decade later engineered the largest merger in our history, retired last June as Chairman after 24 years of service. Mr. Pichler devoted his career at Kroger to building on the organization's strengths and positioning the Company for a bright, successful future.

On behalf of the entire Company, we also extend our thanks and congratulations to: Bob Zincke, Executive Vice President, who retired last fall after a distinguished 40-year career with the Company; Robert J. Hodge, President of the Cincinnati/Dayton division, who retired in January after 40 years; and Cleve Gorman, Vice President of Enterprise Systems, who retired in February after 46 years with Kroger. We are grateful to these executives for their dedication, expertise and integrity.

DELIVERING IMPROVED SERVICE, SELECTION AND VALUE

We are delighted with the progress we have made and the plan we have in place for 2005. Kroger enters this year with the strongest sales momentum in several years. Our identical food-store sales are growing faster than many of our traditional supermarket competitors – an indication that we are improving the service, selection, and value experiences that our associates deliver to our customers. As a result, Kroger will drive sustainable, profitable sales growth and create value for our shareholders in 2005 and beyond.

None of this would be possible without the unwavering commitment of our 289,000 associates. They are the key to our future, and we are thankful for their continued support.

Chairman of the Board and

Chief Executive Officer

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Cincinnati, Ohio, May 16, 2005

To All Shareholders
of The Kroger Co.:

The annual meeting of shareholders of The Kroger Co. will be held at the MUSIC HALL BALLROOM, MUSIC HALL, 1243 Elm Street, Cincinnati, Ohio, on June 23, 2005, at 11 A.M., E.D.T., for the following purposes:

1. To elect five directors to serve until the annual meeting of shareholders in 2008, or until their successors have been elected and qualified;
2. To consider and act upon a proposal to approve the 2005 Long-Term Incentive Plan;
3. To consider and act upon a proposal to ratify the selection of auditors for the Company for the year 2005;
4. To act upon three shareholder proposals, if properly presented at the annual meeting; and
5. To transact such other business as may properly be brought before the meeting;

all as set forth in the Proxy Statement accompanying this Notice. Holders of common shares of record at the close of business on April 25, 2005 will be entitled to vote at the meeting.

ATTENDANCE

Only shareholders and persons holding proxies from shareholders may attend the meeting. Please **bring to the meeting the admission ticket** that is attached to the proxy card.

If your shares are held in the name of a broker, trust, bank, or other nominee, please bring a proxy or letter from that broker, trust, bank or nominee confirming that you are the beneficial owner of those shares. The left side portion of the voting instruction form that you receive from your broker will serve as your admission ticket.

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YOUR MANAGEMENT DESIRES TO HAVE A LARGE NUMBER OF SHAREHOLDERS REPRESENTED AT THE MEETING, IN PERSON OR BY PROXY. PLEASE VOTE YOUR PROXY ELECTRONICALLY VIA THE INTERNET OR TELEPHONE, OR SIGN AND DATE THE ENCLOSED PROXY AND MAIL IT AT ONCE IN THE ENCLOSED SELF-ADDRESSED ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES.

If you are unable to attend the annual meeting, you may listen to a live webcast of the meeting, which will be accessible through our website (www.kroger.com) at 11 a.m., E.D.T.

By order of the Board of Directors,

Paul W. Heldman, Secretary

PROXY STATEMENT

Cincinnati, Ohio, May 16, 2005

The accompanying proxy is solicited by the Board of Directors of The Kroger Co., and the cost of solicitation will be borne by the Company. The Company will reimburse banks, brokers, nominees, and other fiduciaries for postage and reasonable expenses incurred by them in forwarding the proxy material to their principals. The Company has retained D.F. King & Co., Inc., 48 Wall Street, New York, New York, to assist in the solicitation of proxies and will pay that firm a fee estimated at present not to exceed \$10,000. Proxies may be solicited personally, or by telephone, as well as by use of the mails and electronic media including the Internet.

David B. Dillon, Steven R. Rogel, and John T. LaMacchia, all of whom are directors of the Company, have been named members of the Proxy Committee.

The principal executive offices of The Kroger Co. are located at 1014 Vine Street, Cincinnati, Ohio 45202-1100. Its telephone number is 513-762-4000. This Proxy Statement and Annual Report, and the accompanying proxy, were first sent or given to shareholders on May 16, 2005.

As of the close of business on April 25, 2005, the Company's outstanding voting securities consisted of 727,823,227 shares of common stock, the holders of which will be entitled to one vote per share at the annual meeting. The shares represented by each proxy will be voted unless the proxy is revoked before it is exercised. Revocation may be in writing to the Secretary of the Company or in person at the meeting or by appointment of a subsequent proxy. The laws of Ohio, under which the Company is organized, provide for cumulative voting for the election of directors. If notice in writing is given by any shareholder to the President, a Vice President, or the Secretary of the Company, not less than 48 hours before the time fixed for the meeting, that the shareholder intends to cumulate votes for the election of directors, and if an announcement of the giving of that notice is made by or on behalf of the shareholder or by the Chairman or Secretary upon the convening of the meeting, each shareholder will have the right to cumulate votes at the election. If cumulative voting is in effect, a shareholder voting for the election of directors may cast a number of votes equal to the number of directors being elected times the number of shares held on the record date for a single nominee or divide them among nominees in full votes in any manner. Any vote FOR the election of directors will constitute discretionary authority to the Proxy Committee to cumulate votes, as the Proxy Committee determines, if cumulative voting is requested.

The effect of broker non-votes and abstentions on matters presented for shareholder vote is as follows:

The election of directors is, pursuant to Ohio law, determined by plurality; broker non-votes and abstentions, therefore, will have no effect on that proposal.

The 2005 Long-Term Incentive Plan is to be approved by a majority of the shares participating in the voting. Therefore, broker non-votes and abstentions will have no effect on that proposal.

Ratification by shareholders of the selection of auditors requires the affirmative vote of the majority of shares participating in the voting. Accordingly, abstentions will have no effect on the proposal.

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The affirmative vote of at least 75% of shares outstanding is required to adopt the shareholder proposal seeking to amend the Company's Regulations. Proxies will be voted AGAINST the resolution unless the Proxy Committee is otherwise instructed on a proxy properly executed and returned. Abstentions and broker non-votes will have the same effect as votes against the proposal.

The affirmative vote of a majority of shares participating in the voting on the other shareholder proposals is required for adoption. Proxies will be voted AGAINST the proposals unless the Proxy Committee is otherwise instructed on a proxy properly executed and returned. Abstentions and broker non-votes will have no effect on these proposals.

PROPOSALS TO SHAREHOLDERS

ELECTION OF DIRECTORS

(ITEM NO. 1)

The Board of Directors, as now authorized, consists of 14 members divided into three classes. Five directors are to be elected at the annual meeting to serve until the annual meeting in 2008, or until their successors have been elected by the shareholders or by the Board of Directors pursuant to the Company's Regulations, and qualified. Candidates for director receiving the greatest number of votes cast by holders of shares entitled to vote at a meeting at which a quorum is present are elected, up to the maximum number of directors to be chosen at the meeting. The committee memberships stated below are those in effect as of the date of this proxy statement. It is intended that, except to the extent that authority is withheld, the accompanying proxy will be voted for the election of the following persons:

Name	Professional Occupation (1)	Age	Director Since
Robert D. Beyer	<p>NOMINEES FOR DIRECTOR FOR TERMS OF OFFICE CONTINUING UNTIL 2008</p> <p>Mr. Beyer is President of Trust Company of the West, an investment management firm, where he has been employed since 1995. From 1991 to 1995, he was the co-Chief Executive Officer of Crescent Capital Corporation, which was acquired by TCW in 1995. Mr. Beyer is also a member of the Board of Directors of Trust Company of the West, and its ultimate parent, Société Générale Asset Management. He is chair of the Financial Policy Committee and a member of the Audit Committee.</p>	45	1999
John T. LaMacchia	<p>Mr. LaMacchia is Chairman of the Board of Tellme Networks, Inc., a provider of voice application networks. From September 2001 through December 2004 he was also Chief Executive Officer of Tellme Networks. From October 1993 through February 1999, Mr. LaMacchia was President and Chief Executive Officer of Cincinnati Bell Inc. From May 1999 to May 2000 he was Chief Executive Officer of CellNet Data Systems, Inc., a provider of wireless data communications. Mr. LaMacchia is a director of Tellme Networks, Inc. and Burlington Resources, Inc. He is chair of the Compensation Committee and a member of the Corporate Governance Committee.</p>	63	1990
Edward M. Liddy	<p>Mr. Liddy is Chairman of the Board, President and Chief Executive Officer of The Allstate Corporation, the parent of Allstate Insurance Company, a personal lines insurance company. Prior to this, he was President and Chief Operating Officer of The Allstate Corporation from 1995-1998 and Senior Vice President and Chief Financial Officer of Sears, Roebuck and Co., where he held a variety of senior operating and financial positions since 1988. Mr. Liddy is a director of The Allstate Corporation, 3M Company, and The Goldman Sachs Group Inc. He is vice chair of the Corporate Governance Committee and a member of the Financial Policy Committee.</p>	59	1996

Name	Professional Occupation (1)	Age	Director Since
Katherine D. Ortega	Ms. Ortega served as an Alternate Representative of the United States to the 45th General Assembly of the United Nations in 1990-1991. Prior to that, she served as Treasurer of the United States. Ms. Ortega is a director of Rayonier Inc., Washington Mutual Investors Fund and JPMorgan Value Opportunities Fund, and Trustee of the American Funds Tax Exempt Series I. She is chair of the Social Responsibility Committee and a member of the Corporate Governance Committee.	70	1992
Bobby S. Shackouls	Mr. Shackouls has been Chairman of the Board of Burlington Resources Inc., a natural resources business, since July 1997 and its President and Chief Executive Officer since December 1995. He has been a director of that company since 1995 and President and Chief Executive Officer of Burlington Resources Oil and Gas Company (formerly known as Meridian Oil Inc.), a wholly-owned subsidiary of Burlington Resources, since 1994. Mr. Shackouls is vice chair of the Audit and Compensation Committees.	54	1999
DIRECTORS WHOSE TERMS OF OFFICE CONTINUE UNTIL 2007			
John L. Clendenin	Mr. Clendenin is Chairman Emeritus of BellSouth Corporation, a holding company with subsidiaries in the telecommunications business. From January 1984 through December 1996 he was its Chairman of the Board and Chief Executive Officer. Mr. Clendenin is a director of Equifax Incorporated, Coca Cola Enterprises, Inc., The Home Depot, Inc., Powerwave Technologies, Inc., and Acuity Brands, Inc. He is a member of the Compensation and Corporate Governance Committees.	70	1986
David B. Dillon	Mr. Dillon was elected Chairman of the Board of Kroger in 2004, Chief Executive Officer in 2003, and President and Chief Operating Officer in 2000. He served as President in 1999, and as President and Chief Operating Officer from 1995-1999. Mr. Dillon was elected Executive Vice President of Kroger in 1990 and President of Dillon Companies, Inc. in 1986. He is a director of Convergys Corporation.	54	1995
David B. Lewis	Mr. Lewis is Chairman, President and Chief Executive Officer of Lewis & Munday, a Detroit based law firm with offices in Washington, D.C. and Seattle. He is a director of H&R Block and Lewis & Thompson Agency, Inc. Mr. Lewis has served on the Board of Directors of Conrail, Inc., LG&E Energy Corp., M.A. Hanna, TRW, Inc. and Comerica, Inc. He is chair of the Audit Committee and vice chair of the Social Responsibility Committee.	60	2002

Name	Professional Occupation (1)	Age	Director Since
Susan M. Phillips	Dr. Phillips is Dean and Professor of Finance at The George Washington University School of Business, a position she has held since 1998. She was a member of the Board of Governors of the Federal Reserve System from December 1991 through June 1998. Before her Federal Reserve appointment, Dr. Phillips served as Vice President for Finance and University Services and Professor of Finance in The College of Business Administration at the University of Iowa from 1987 through 1991. She is a director of State Farm Mutual Automobile Insurance Company, State Farm Life Insurance Company, State Farm Companies Foundation, National Futures Association, the Chicago Board Options Exchange and the Chicago Futures Exchange. Dr. Phillips is a member of the Financial Policy and Social Responsibility Committees.	60	2003
DIRECTORS WHOSE TERMS OF OFFICE CONTINUE UNTIL 2006			
Reuben V. Anderson	Mr. Anderson is a member in the Jackson, Mississippi, office of Phelps Dunbar, a regional law firm based in New Orleans. Prior to joining this law firm, he was a justice of the Supreme Court of Mississippi. Mr. Anderson is a director of Trustmark National Bank, BellSouth Corporation, and Burlington Resources Inc. He is a member of the Audit and Social Responsibility Committees.	62	1991
Don W. McGeorge	Mr. McGeorge was elected President and Chief Operating Officer of Kroger in 2003. Before that he was elected Executive Vice President in 2000 and Senior Vice President in 1997.	50	2003
W. Rodney McMullen	Mr. McMullen was elected Vice Chairman of Kroger in 2003. Before that he was elected Executive Vice President in 1999 and Senior Vice President in 1997. Mr. McMullen is a director of Cincinnati Financial Corporation.	44	2003
Clyde R. Moore	Mr. Moore is the Chairman and Chief Executive Officer of First Service Networks, a national provider of facility and maintenance repair services. Prior to that, he served as President and Chief Executive Officer of Thomas & Betts Corporation, a manufacturer of electrical and electronic components from 1997-2000. Mr. Moore is a director of First Service Networks. He is a member of the Audit and Social Responsibility Committees.	51	1997

Name	Professional Occupation (1)	Age	Director Since
Steven R. Rogel	Mr. Rogel was elected Chairman of the Board of Weyerhaeuser Company in 1999 and has been President and Chief Executive Officer and a director thereof since December 1997. Before that time he was Chief Executive Officer, President and a director of Willamette Industries, Inc. Mr. Rogel served as Chief Operating Officer of Willamette Industries, Inc. until October 1995 and, before that time, as an executive and group vice president for more than five years. He is a director of Weyerhaeuser Company and Union Pacific Corporation. Mr. Rogel has been appointed by the Board to serve as Lead Director. He is chair of the Corporate Governance Committee and a member of the Financial Policy Committee.	62	1999

(1) Except as noted, each of the directors has been employed by his or her present employer (or a subsidiary) in an executive capacity for at least five years.

INFORMATION CONCERNING THE BOARD OF DIRECTORS

DIRECTORS' COMPENSATION

Each non-employee member of the Board receives an annual retainer of \$75,000; the chair of each committee receives an additional annual retainer of \$12,000; and the members of the audit committee and the director who is designated as Lead Director receive an additional annual retainer of \$10,000. Each director also receives annually an award of 2,500 shares of restricted stock and 5,000 non-qualified stock options.

Directors who are employees of the Company receive no compensation for service as directors. The Company provides accidental death and disability insurance for outside directors at a cost to the Company in 2004 of \$114 per director. The Company also provided a major medical plan for outside directors first elected to the Board prior to July 17, 1997. No medical benefits are provided to outside directors first elected after that date.

The Company has an unfunded retirement program for outside directors first elected to the Board prior to July 17, 1997. Under that plan, the retirement benefit is the average compensation for the five calendar years preceding retirement. Covered directors who retire from the Board prior to age 70 will be credited with 50% vesting after five years of service and an additional 10% for each year served thereafter, up to a maximum 100%. Benefits for covered directors who retire prior to age 70 will commence at the time of retirement from the Board or age 65, whichever comes later. The Board has adopted no retirement plan for directors newly elected after July 17, 1997.

The Company maintains a non-qualified deferred compensation plan in which all outside directors are eligible to participate. Participants may defer up to 100% of their cash compensation each year, and may elect from one or both of two different alternatives. In the first alternative, compensation deferred during a deferral year bears interest at the per annum rate determined by the Board prior to the beginning of the deferral year to equal the Company's cost of ten year debt. In the second alternative, deferred compensation is deemed to be credited in phantom stock accounts and the amounts in such accounts fluctuate with the price of Kroger common stock. In both cases, deferred amounts are paid out only in cash, in accordance with a deferral option selected by the participant at the time a deferral election is made.

COMMITTEES OF THE BOARD

The Board of Directors has a number of standing committees including Audit, Compensation, and Corporate Governance Committees. All standing committees are composed exclusively of independent directors. During 2004, the Audit Committee met eight times, the Compensation Committee met four times, and the Corporate Governance Committee met two times. Committee memberships are shown on pages 8 through 11 of this Proxy Statement. The Audit Committee reviews financial reporting and accounting matters pursuant to its charter set forth as Appendix 1 to this Proxy Statement and selects the Company's independent accountants. The Compensation Committee recommends for determination by the Board the compensation of the Chief Executive Officer and determines the compensation of the Company's other senior management and administers certain stock option programs. The Corporate Governance Committee develops criteria for selecting and retaining members of the Board; seeks out qualified candidates for the Board; and reviews the performance of the Company, the Chief Executive Officer, and the Board.

The Corporate Governance Committee will consider shareholder recommendations for nominees for membership on the Board of Directors. Recommendations relating to the Company's annual meeting in June 2006, together with a description of the proposed nominee's qualifications and other relevant information, must be submitted in writing to Paul W. Heldman, Secretary of the Company, and received at the Company's executive offices not later than January 16, 2006. Shareholders who desire to submit a candidate for director should send the name of the proposed candidate, along with information regarding the proposed candidate's background and experience, to the attention of the Company's Secretary at the Company's executive offices. The Secretary will forward the information to the Corporate Governance Committee for its consideration. The Committee will use the same criteria in evaluating candidates submitted by shareholders as it uses in evaluating candidates identified by the Committee. These criteria are:

Demonstrated ability in fields considered to be of value in the deliberations of the Board, including business management, public service, education, science, law and government;

Highest standards of personal character and conduct;

Willingness to fulfill the obligations of directors and to make the contribution of which he or she is capable, including regular attendance and participation at Board and committee meetings, and preparation for all meetings including review of all meeting materials provided in advance of the meeting; and

Ability to understand the perspectives of the Company's customers, taking into consideration the diversity of the Company's customers including regional and geographic differences.

The Corporate Governance Committee typically recruits candidates for Board membership through its own efforts and through suggestions from other directors and shareholders. The Committee has retained an outside search firm to assist in identifying and recruiting Board candidates who meet the criteria established by the Committee.

CORPORATE GOVERNANCE

The Board of Directors has adopted Guidelines on Issues of Corporate Governance. These Guidelines, which include copies of the current charters for the Audit, Compensation and Corporate Governance Committees and the other committees of the Board of Directors, are available on the Company's website at www.kroger.com. Shareholders may obtain a copy of the Guidelines by making a written request to the Company's Secretary at the Company's executive offices.

INDEPENDENCE

The Board of Directors has determined that all of the directors, with the exception of Messrs. Dillon, McGeorge and McMullen, have no material relationships with the Company and therefore are independent for purposes of the New York Stock Exchange listing standards. The Board made its determination based on information furnished by all members regarding their relationships with the Company. After reviewing the information, the Board determined that all of the non-employee directors were independent because (i) they all satisfied the independence standards set forth in Rule 10A-3 of the Securities Exchange Act of 1934, (ii) they all satisfied the criteria for independence set forth in Rule 303A.02(b) of the New York Stock Exchange Listed Company Manual, and (iii) other than business transactions between the Company and entities with which the directors are affiliated, the value of which falls below the thresholds identified by the New York Stock Exchange listing standards, none had any relationships with the Company except for those arising directly from their performance of services as a director for the

Company.

AUDIT COMMITTEE EXPERTISE

The Board of Directors has determined that Robert D. Beyer and David B. Lewis, both independent directors who are members of the Audit Committee, are audit committee financial experts as defined by applicable SEC regulations and that all members of the Audit Committee are financially literate as that term is used in the NYSE listing standards.

CODE OF ETHICS

The Board of Directors has adopted The Kroger Co. Policy on Business Ethics, applicable to all officers, employees and members of the Board of Directors, including its principal executive, financial and accounting officers. The Policy is available on the Company's website at www.kroger.com. Shareholders may obtain a copy of the Policy by making a written request to the Company's Secretary at the Company's executive offices.

SHAREHOLDER COMMUNICATIONS WITH BOARD

The Board has established two separate mechanisms for shareholders to communicate with the Board. Any shareholder who has concerns regarding accounting, improper use of Company assets, or ethical improprieties may report these concerns via the toll-free hotline (800-689-4609) or email address (helpline@kroger.com) established by the Board's Audit Committee.

Shareholders also may communicate with the Board in writing directed to the Company's Secretary at the Company's executive offices. The Secretary will consider the nature of the communication and determine whether to forward the communication to the chair of the Corporate Governance Committee. Communications relating to personnel issues or the ordinary business operations of the Company or seeking to do business with the Company, will be forwarded to the business unit of the Company that the Secretary deems appropriate. All other communications will be forwarded to the chair of the Corporate Governance Committee for further consideration. The chair of the Corporate Governance Committee will take such action as he or she deems appropriate, which may include referral to the Corporate Governance Committee or the entire Board.

ATTENDANCE

The Board of Directors met seven times in 2004. During 2004, all incumbent directors attended at least 75% of the aggregate number of Board meetings and committee meetings on which that director was a member. Members of the Board are expected to use their best efforts to attend all annual meetings of shareholders. All members of the Board attended last year's annual meeting.

COMPENSATION OF EXECUTIVE OFFICERS

SUMMARY COMPENSATION

The following table shows the compensation for the past three years of the Chief Executive Officer, each of the Company's four most highly compensated executive officers excluding the Chief Executive Officer, and one additional former executive officer (the named executive officers):

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			
		Salary	Bonus	Other Annual Compensation	Awards	Restricted Stock Awards	Securities Underlying Options/ SARs	Payouts LTIP Payouts
		(\$)	(\$)	(\$)	(\$)	(#)	(\$)	(\$)
				(1)	(2)	(3)	(4)	(5)
David B. Dillon Chairman and Chief Executive Officer	2004	\$ 1,083,974	\$ 736,361	\$ 33,900		300,000		\$ 52,256
	2003	\$ 880,062	\$ 244,962	\$ 21,622	\$ 2,517,000			\$ 28,575
	2002	\$ 675,385	\$ 71,280	\$ 19,303	\$ 666,768	315,000	\$ 449,200	\$ 24,479
W. Rodney McMullen Vice Chairman	2004	\$ 772,647	\$ 468,979	\$ 10,469		75,000		\$ 18,341
	2003	\$ 704,077	\$ 181,865	\$ 8,614	\$ 1,678,000			\$ 14,333
	2002	\$ 618,846	\$ 59,400	\$ 7,661	\$ 2,610,880	225,000	\$ 449,200	\$ 12,096
Don W. McGeorge President and Chief Operating Officer	2004	\$ 772,647	\$ 468,979	\$ 24,834		75,000		\$ 35,155
	2003	\$ 681,462	\$ 176,298	\$ 16,480	\$ 1,678,000			\$ 23,509
	2002	\$ 561,539	\$ 53,460	\$ 15,385	\$ 553,996	225,000	\$ 449,200	\$ 20,754
Michael S. Heschel Executive Vice President and Chief Information Officer	2004	\$ 599,692	\$ 297,940	\$ 55,401		45,000		\$ 84,310
	2003	\$ 578,077	\$ 130,275	\$ 44,244	\$ 419,500			\$ 68,183
	2002	\$ 561,539	\$ 53,460	\$ 43,486	\$ 953,996	135,000	\$ 449,200	\$ 54,585
Paul W. Heldman Senior Vice President, Secretary and General Counsel	2004	\$ 617,808	\$ 275,870	\$ 19,577		40,000		\$ 27,698
	2003	\$ 567,739	\$ 116,913	\$ 14,934	\$ 671,200			\$ 21,007
	2002	\$ 506,538	\$ 44,626	\$ 13,377	\$ 1,001,220	120,000	\$ 336,900	\$ 17,690
Joseph A. Pichler Former Chairman	2004	\$ 775,000	\$ 464,204	\$ 97,159				\$ 289,578
	2003	\$ 1,300,000	\$ 422,188	\$ 63,404	\$ 2,256,000			\$ 93,245
	2002	\$ 1,288,462	\$ 173,250	\$ 97,771		600,000	\$ 2,246,000	\$ 136,723

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- (1) These amounts include reimbursement for the tax effects of the payment of certain premiums on a policy of life insurance, reimbursement for the tax effects of participation in a non-qualified retirement plan, and the value of financial planning services. Although historically the above totals have not included the amount of financial planning services since such amount does not reach the threshold level for disclosure provided in the SEC's rules, this year the Company included the amount of financial planning services and recalculated the above totals for 2002 and 2003 to add such amount in the interest of disclosing all perquisites of any meaningful value. For 2004, the amounts included for financial planning services were \$3,400, \$0, \$1,900, \$4,500, \$2,739 and \$4,500, respectively, for Messrs. Dillon, McMullen, McGeorge, Heschel, Heldman and Pichler. Excluded from these totals is income imputed to the named executive officer when accompanied on Company aircraft during business travel by non-business travelers. These amounts for 2004, calculated using the applicable terminal charge and Standard Industry Fare Level (SIFL) mileage rates, were \$6,340 and \$1,353 for Mr. Dillon and Mr. Heschel, respectively. Separately, the Company requires that officers who make personal use of Company aircraft must reimburse the Company for the full amount of the variable cost associated with the operation of the aircraft on such flights.

- (2) Messrs. Dillon, McMullen, McGeorge, Heschel, Heldman and Pichler had 157,370, 116,109, 112,281, 0, 87,000 and 0 shares outstanding, respectively, at January 29, 2005. These shares had an aggregate value of \$2,713,059, \$2,001,719, \$1,935,724, \$0, \$1,499,880 and \$0, respectively, based on the market price of the Company's common stock on January 29, 2005. The restrictions on the shares awarded to Mr. Dillon lapse as to 82,370 shares in 2005, and 75,000 shares in 2006. The restrictions on the shares awarded to Mr. McMullen lapse as to 66,109 shares in 2005, and 50,000 shares in 2006. The restrictions on the shares awarded to Mr. McGeorge lapse as to 62,281 shares in 2005, and 50,000 shares in 2006. The restrictions on the shares awarded to Mr. Heldman lapse as to 67,000 shares in 2005, and 20,000 shares in 2006. Dividends, as and when declared, are payable on these shares.
- (3) Represents options granted during the respective fiscal year. As to 2002 and 2004, these options vest over five years. No options were granted to the named executive officers during 2003. Options terminate in 10 years if not earlier exercised or terminated. No stock appreciation rights (SARs) were granted in any of the three years presented.
- (4) These amounts represent the value of restricted stock that vested during the period presented, previously reported as Long-Term Compensation Awards. All amounts reflect awards earned because the synergy savings budgeted for the year to be obtained from the Fred Meyer merger were achieved.
- (5) For 2004, these amounts include the Company's matching contribution under The Kroger Co. Savings Plan in the amount of \$1,323, \$1,326, \$0, \$572, \$1,430, and \$323, respectively, for Messrs. Dillon, McMullen, McGeorge, Heschel, Heldman and Pichler, and reimbursement of certain premiums for policies of life insurance in the amounts of \$50,993, \$17,015, \$35,155, \$83,738, \$26,268, and \$157,771, respectively, for Messrs. Dillon, McMullen, McGeorge, Heschel, Heldman and Pichler. For 2004, this amount for Mr. Pichler includes a consulting fee in the amount of \$131,484 for consulting services provided to the Company after his retirement effective as of September 4, 2004 until January 29, 2005 pursuant to a consulting arrangement described on page 25 of this Proxy Statement. The matching contribution and the insurance reimbursements described above were recalculated for 2002 and 2003 to reflect these amounts on a fiscal year basis.

STOCK OPTION/STOCK APPRECIATION RIGHT GRANTS

The Company has in effect employee stock option plans pursuant to which options to purchase common stock of the Company are granted to officers and other employees of the Company and its subsidiaries. The following table shows option grants in fiscal year 2004 to the named executive officers:

OPTION/SAR GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options/SAR Granted	Individual Grants			Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term		
		% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share)	Expiration Date	0%	5%	10%
David B. Dillon	300,000	4.49%	\$ 17.31	5/6/2014	\$ 0	\$ 3,265,850	\$ 8,276,305
W. Rodney McMullen	75,000	1.12%	\$ 17.31	5/6/2014	\$ 0	\$ 816,462	\$ 2,069,076
Don McGeorge	75,000	1.12%	\$ 17.31	5/6/2014	\$ 0	\$ 816,462	\$ 2,069,076
Michael S. Heschel	45,000	0.67%	\$ 17.31	5/6/2014	\$ 0	\$ 489,877	\$ 1,241,446
Paul W. Heldman	40,000	0.60%	\$ 17.31	5/6/2014	\$ 0	\$ 435,447	\$ 1,103,507
Joseph A. Pichler	0				\$ 0		

AGGREGATED OPTION/SAR EXERCISES IN FISCAL YEAR AND OPTION/SAR VALUES

The following table shows information concerning the exercise of stock options during fiscal year 2004 by each of the named executive officers and the fiscal year-end value of unexercised options:

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES TABLE

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at F/Y End (1) (#) Exercisable/Unexercisable	Value of Unexercised
				In-the-Money Options/SARs at F/Y End (1) (\$) Exercisable/Unexercisable
David B. Dillon	0	\$ 0	590,000/707,000	\$ 2,074,073/\$336,924
W. Rodney McMullen	0	\$ 0	405,000/365,000	\$ 1,218,183/\$240,660
Don McGeorge	0	\$ 0	385,500/357,500	\$ 901,750/\$240,660
Michael S. Heschel	0	\$ 0	534,000/0	\$ 641,096/\$0

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Paul W. Heldman	50,000	\$ 523,750	320,666/219,834	\$ 1,209,743/\$136,968
Joseph A. Pichler	108,000	\$ 1,222,020	1,140,000/650,000	\$ 2,802,473/\$594,372

(1) No SARs were granted or outstanding during the fiscal year.

COMPENSATION COMMITTEE REPORT

This report is furnished by the Compensation Committee, which is composed exclusively of directors who meet the independence standards adopted by the New York Stock Exchange. The Compensation Committee is responsible for the approval and administration of the base salary level and annual bonus compensation programs, as well as the equity incentive program for executive officers.

The Company's compensation policies are applicable to virtually all levels of its work force, including its executive officers. These policies require the Company to:

be competitive in total compensation;

include, as part of total compensation, opportunities for equity ownership;

use incentives that offer more than competitive compensation when the Company achieves superior results; and

base incentive payments, or annual bonus, on adjusted earnings before interest, taxes, depreciation and amortization (EBITDA); on sales results; on achievement of strategic initiatives and on the extent to which the sales and EBITDA results of designated capital projects exceed a minimum threshold established for those projects.

The Company's cash compensation package for its executive, management, and some hourly employees, consists of two components: (1) base salary, and (2) annual performance-based bonuses. The Company also provides stock based equity incentive grants to executives, management, and some hourly employees as a means to drive long-term performance and promote ownership in the Company.

In determining compensation levels the Committee considers salary and bonus levels that will attract and retain qualified executives when combined with the other components of the Company's compensation programs including long-term stock based equity grants. In addition to the bonus program, the Committee also considers other programs that incorporate performance objectives, the achievement of which should contribute to long-term shareholder value. The Committee establishes salaries for executive officers that generally are at or above the median compensation paid by competitors for comparable positions (where data for comparable positions are available) with a bonus potential that, if the bonus plan goals are realized, would cause their total cash compensation to be above the median, in the third quartile.

The Company's philosophy for granting equity incentive awards is based on the principles of encouraging key employees to remain with the Company and to encourage ownership in the Company. Stock based equity grants reinforce a long-term interest in the Company's overall performance and incentivize those executive officers to manage with a view toward maximizing long-term shareholder value.

In each of the last several years the Committee has engaged a compensation consultant from Mercer Human Resource Consulting, an executive compensation consulting firm, to perform competitive peer analysis and to determine whether the compensation of the executive officers actually met the Company's compensation philosophy. In conjunction with the Company, Mercer Human Resource Consulting identified a group of peer retail companies, based primarily on similarity of lines of business, against which officer compensation is measured. Mercer Human Resource Consulting concluded that the total compensation of the executive officers was at or near the median of the peer companies.

BASE SALARY

The salaries of the executive officers are determined by evaluating both the most recent comparative peer data available and each officer's role and responsibilities. Individual salaries are reviewed annually and salary increases are based on the Company's overall performance and the executive's performance, role and contribution.

ANNUAL BONUSES

A large percentage of employees at all levels of the Company, including the executive officers, are eligible to receive a performance-based bonus based on Company or unit performance. The Board establishes a bonus potential for the Chief Executive Officer, and the Committee establishes bonus potentials for the other officers based on the level within the organization. Actual payouts, which can exceed 100% of the potential amounts, represent the extent to which performance exceeds the thresholds established by the Committee.

At the Committee's March 15, 2005 meeting, the Committee discussed bonus payments to the executive officers and considered the performance of the Company as compared to the goals that the Committee established for the 2004 plan year. Based on the Company's performance, the Committee determined that the Company (i) had not achieved its EBITDA objective, (ii) had partially achieved its sales objective, and (iii) had substantially achieved its objective for development of strategic plans. As a result, the Committee determined that the officers had earned 55.174% of their bonus potentials, the same percentage applicable to all other eligible employees participating in the corporate bonus plan, based on the extent to which the Company achieved the 2004 bonus objectives established by the Committee.

EQUITY BASED COMPENSATION GRANTS

Awards based on the Company's common stock are granted annually to the officers and a large number of employees throughout the Company. In 2004, the Company granted 6,678,052 stock options to approximately 13,719 employees, including the executive officers, under the 2002 Long-Term Incentive Plan. The options permit the holder to purchase Kroger common stock at an option price equal to the trading price of Kroger common stock on the date of the grant. The 2002 Plan also provides for the award of restricted stock, and during fiscal year 2004 the Company awarded 236,975 shares to 179 employees, including some of the executive officers, none of whom were the named executive officers.

The Committee's philosophy in granting stock-based compensation is to increase ownership in the Company and to give executive officers an incentive to manage with a view toward maximizing long-term shareholder value. These grants provide incentive for the creation of shareholder value since the full benefit of the grant to each executive officer can only be realized with an appreciation in the price of the Company's common stock.

In determining the total amount to be granted annually to the executive officers, the Committee considers the amount of equity compensation grants already held by the recipient, dilution, the number of shares of common stock outstanding, the level within the organization, the size of equity grants made to the recipient in prior years, practices at peer companies for comparable positions, and the performance of the Company during the immediately preceding year. The grants in 2004 to all employees represented approximately 0.9% of shares outstanding at fiscal year end.

CHIEF EXECUTIVE OFFICER S COMPENSATION

The Chief Executive Officer s compensation is determined annually by the Board of Directors after a review and recommendation by the Committee. In making its recommendation, the Committee considered internal equity and competitor salary data, including data for most of the companies identified in the peer group shown on the

performance graph (See p. 22). Based on these factors, the Board established Mr. Dillon's 2004 base salary effective April 24, 2004, at \$1,100,000, which represents an increase of ten percent from his 2003 salary level. This placed Mr. Dillon's salary below the median of competitor companies of similar size and complexity as Kroger, as reviewed by Mercer Human Resource Consulting. A substantial portion of Mr. Dillon's increase in 2004 was due to his assumption of additional responsibilities as Chairman of the Board.

The Board established Mr. Dillon's bonus potential effective April 24, 2004, at \$1,375,000. His actual payout for the fiscal year was based on a potential of \$1,334,616, taking into account his lower bonus potential in effect prior to April 24. As indicated above, at the Committee's March 15, 2005 meeting, the Committee discussed bonus payments to executive officers, including Mr. Dillon, and considered the performance of the entire Company as compared to the bonus criteria established by the Committee for the 2004 plan year. Based on the Company's performance, the Committee determined that the Company (i) had not achieved its EBITDA objective, (ii) had partially achieved its sales objective, and (iii) had substantially achieved its objective for development of strategic plans. As a result, the Committee determined that based on the Company's performance Mr. Dillon earned a bonus of \$736,361, which represented 55.174% of his bonus potential for fiscal year 2004.

On May 6, 2004, Mr. Dillon was granted options to purchase 300,000 shares of Kroger common stock at an option price equal to the trading price of Kroger common stock on the date of grant. That grant was made under the Company's broad-based 2002 Long-Term Incentive Plan in accordance with the guidelines of the Committee referenced above, and at the same time that options were granted to a large number of other Kroger associates, including some hourly employees.

Mr. Dillon is party to an employment contract with the Company that is more particularly described elsewhere in the proxy statement under the section titled "Employment Contracts" (See p. 25). That agreement establishes minimum compensation at a level below his total compensation determined in consideration of the factors identified above.

REVIEW OF ALL COMPONENTS OF EXECUTIVE COMPENSATION

The Committee has reviewed all components of compensation of the Company's Chief Executive Officer and the other executive officers, including salary, bonus, equity and long-term incentive compensation, accumulated realized and unrealized stock option gains and restricted stock values, the dollar value to the executive and cost to the Company of all perquisites and other personal benefits, benefits under the Company's pension plans, severance benefits under the Kroger Employee Protection Plan, and the earnings and accumulated payout obligations under the Company's non-qualified deferred compensation program. A tally sheet setting forth all the above components was prepared for and reviewed by the Committee in connection with the Committee's consideration of compensation for the executive officers.

SECTION 162(M) OF THE INTERNAL REVENUE CODE

The Omnibus Budget Reconciliation Act of 1993 places a \$1,000,000 limit on the amount of certain types of compensation for each of the executive officers that is tax deductible by the Company. The Company believes that its 2002 Long-Term Incentive Plan, under which stock options were granted to the executive officers, complies with the Internal Revenue Service's regulations on the deductibility limit. Accordingly, the compensation expense incurred thereunder related to the options should be deductible. The Company continues to consider modifications to its other compensation programs based on the regulations. The Company's policy is, primarily, to design and

administer compensation plans that support the achievement of long-term strategic objectives and enhance shareholder value. Where it is material and supports the Company's compensation philosophy, the Committee also will attempt to maximize the amount of compensation expense that is tax deductible by the Company.

CONCLUSION

Based on the Committee's review of executive officer compensation, the Committee finds the total compensation of the Company's Chief Executive Officer and the other executive officers, in the aggregate, to be reasonable. As discussed above, the Committee utilized the services of Mercer Human Resource Consulting to perform competitive peer analysis.

When the Committee considers any component of the total compensation of the Company's executive officers, and when it makes recommendations to the Board regarding the Chief Executive Officer's compensation, the aggregate amounts and mix of all of the components, including accumulated (realized and unrealized) option and restricted stock gains, are taken into consideration in the Committee's decisions.

The Committee and the Board of Directors believe that the caliber and motivation of all of our employees, including our executive leadership, are essential to the Company's performance. We believe our management compensation programs contribute to our ability to differentiate our performance from others in the marketplace. We will continue to administer our compensation program in a manner that we believe will be in shareholders' interests and worthy of shareholder support.

Compensation Committee:

John T. LaMacchia, Chair

Bobby S. Shackouls, Vice Chair

John L. Clendenin

P E R F O R M A N C E G R A P H

Set forth below is a line graph comparing the five-year cumulative total shareholder return on the Company's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the cumulative total return of companies in the Standard & Poor's 500 Stock Index and the Peer Group composed of food and drug companies.

Historically, the Company's peer group has consisted of the major food store companies. In recent years there have been significant changes in the industry, including consolidation and increased competition from supercenters and drug chains. As a result, in 2003 the Company changed its peer group (the Peer Group) to include companies operating supermarkets, supercenters and warehouse clubs in the United States as well as the major drug chains with which the Company competes.

Company Name / Index	Base Period	INDEXED RETURNS				
		Years Ending				
		2000	2001	2002	2003	2004
KROGER CO	100	148.59	122.75	91.11	111.88	104.09
S&P 500 INDEX	100	99.82	83.84	66.65	89.69	94.48
PEER GROUP	100	109.74	110.49	84.03	98.03	104.96

The Company's fiscal year ends on the Saturday closest to January 31.

* Total assumes \$100 invested on January 30, 2000, in The Kroger Co., S&P 500 Index and the Peer Group, with reinvestment of dividends.

** The Peer Group consists of Albertson's, Inc., Costco Wholesale Corp., CVS Corp, Delhaize Group SA (ADR), Great Atlantic & Pacific Tea Company, Inc., Koninklijke Ahold NV (ADR), Marsh Supermarkets Inc. (Class A), Safeway Inc., Supervalu Inc., Target Corp., Wal-Mart Stores Inc., Walgreen Co., Whole Foods Market Inc. and Winn-Dixie Stores, Inc.

Data supplied by Standard & Poor's.

Neither the foregoing Compensation Committee Report nor the foregoing Performance Graph will be deemed incorporated by reference into any other filing, absent an express reference thereto.

COMPENSATION PURSUANT TO PLANS

The Company maintains various benefit plans that are available to management and certain other employees. The Company derives the benefit of tax deductions as a result of its contributions to some of the plans. Each of the executive officers of the Company was eligible to participate in one or more of the following plans.

THE KROGER CO. EMPLOYEE PROTECTION PLAN

The Company adopted The Kroger Co. Employee Protection Plan (KEPP) during fiscal 1988 and renewed the plan in 1993, in 1998 and in 2003. All management employees, including the executive officers, and administrative support personnel of the Company with at least one year of service are covered. KEPP provides for severance benefits and the extension of Company-paid health care in the event an eligible employee actually or constructively is terminated from employment without cause within two years following a change of control of the Company (as defined in the plan). For persons 40 years of age or older with more than six years of service, severance pay ranges from approximately 9 to 18 months salary and bonus, depending upon Company pay level and other benefits. KEPP may be amended or terminated by the Board of Directors at any time prior to a change of control, and will expire in 2008 unless renewed by the Board of Directors.

PENSION PLAN

The Company maintains The Kroger Consolidated Retirement Benefit Plan (the Plan) that is the surviving defined benefit plan upon the merger of its other defined benefit plans, including the Dillon Companies, Inc. Pension Plan. The Plan generally provides for pension benefits under several formulas, including a cash balance formula covering most participants under which the Company credits five percent of eligible compensation (up to the limit provided under the Internal Revenue Code) with interest, to the accounts of recent and future participants. For some participants, the Plan provides for unreduced benefits, beginning at age 62, equal to 1 $\frac{1}{2}$ % times the years of service, after attaining age 21 (or, for participants prior to January 1, 1986, after attaining age 25), times the highest average earnings for any five years during the 10 calendar years preceding retirement, less an offset tied to Social Security benefits. The Company also maintains The Kroger Co. Consolidated Retirement Excess Benefit Plan, the surviving excess benefit plan upon the merger of its other excess benefit plans. The following table gives an example of annual retirement benefits payable on a single-life basis under the Plan combined with the excess benefit plan applicable to the named executive officers.

Five Year Average Remuneration	Years of Service					
	15	20	25	30	35	40
\$ 150,000	\$ 33,750	\$ 45,000	\$ 56,250	\$ 67,500	\$ 78,750	\$ 90,000
250,000	56,250	75,000	93,750	112,500	131,250	150,000
450,000	101,250	135,000	168,750	202,500	236,250	270,000
650,000	146,250	195,000	243,750	292,500	341,250	390,000
850,000	191,250	255,000	318,750	382,500	446,250	510,000
900,000	202,500	270,000	337,500	405,000	472,500	540,000
1,200,000	270,000	360,000	450,000	540,000	630,000	720,000
1,500,000	337,500	450,000	562,500	675,000	787,500	900,000
1,800,000	405,000	540,000	675,000	810,000	945,000	1,080,000

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2,200,000

495,000

660,000

825,000

990,000

1,155,000

1,320,000

No deductions have been made in the above table for offsets tied to Social Security benefits.

Remuneration earned by Messrs. Dillon, McMullen, McGeorge, Heschel, Heldman and Pichler in 2004, which was covered by the Plans, was \$1,314,192.38, \$947,788.48, \$942,221.17, \$724,736.61, \$729,375.10, and \$1,297,187.50, respectively. As of January 29, 2005, they had 29, 19, 25, 13, 22 and 24 years of credited service, respectively, under the Plans' formulas. Pursuant to his employment agreement, which has expired, Mr. Heschel will receive an additional 15 years of credited service.

DILLON PROFIT SHARING PLAN

Dillon Companies, Inc. maintains the Dillon Employees' Profit Sharing Plan. Joseph A. Pichler and David B. Dillon, respectively, have seven and 20 years of credited service in the Profit Sharing Plan, but no further service will be accrued for them under this plan.

Under the Dillon Employees' Profit Sharing Plan, Dillon Companies, Inc. and each of its participating subsidiaries contributes a certain percentage of net income, determined annually, to be allocated among participating employees based on the percent that the participating employee's total compensation bears to the total compensation of all participating employees employed by the particular Dillon division or subsidiary. Benefits payable under the Dillon Employees' Profit Sharing Plan reduce amounts otherwise payable to participants under the Dillon Companies, Inc. Pension Plan formula described on the preceding page.

The amounts contributed by Dillon Companies, Inc. and its subsidiaries pursuant to these retirement plans are not readily ascertainable for any individual, and thus are not set forth above. Recent participants in these plans now participate instead in the cash balance formula discussed in the previous section.

EMPLOYMENT CONTRACTS

The Company entered into an employment agreement with Mr. Dillon dated as of November 30, 2001. During the five-year period of the agreement, the Company agrees to pay Mr. Dillon no less than a base salary equal to that existing on the date of the contract, with a bonus potential of not less than that existing on the date of the contract. The Compensation Committee of the Board may reduce these amounts during periods of adverse business conditions. In the event that Mr. Dillon's employment actually or constructively is terminated by the Company during the term of the agreement, other than for cause, in exchange for providing consulting services to the Company Mr. Dillon will receive annually for a period of three years an amount equal to the sum of his then current base salary plus 50% of his then current bonus target. In addition, his stock options will become immediately exercisable, restrictions on any outstanding restricted stock will lapse, his health care benefits will be continued during that period, he will receive credited service under the Company's pension plans, and he will be reimbursed for any taxes due because of any excess parachute payment received as well as reimbursement for the tax effect of the reimbursement. Mr. Dillon's employment agreement contains a covenant not to compete with the Company.

The Company entered into an amended and restated employment agreement with Mr. Pichler dated as of July 22, 1993. Mr. Pichler retired effective as of September 4, 2004. As a result of his retirement after the age of 62, the contract provides that Mr. Pichler, in exchange for his availability to provide certain consulting services, will receive each year until his death an amount equal to 25% of the highest base salary paid him before his retirement. The Company also has agreed to reimburse Mr. Pichler for premiums on a policy of life insurance plus the tax effects of that reimbursement until the policy is paid in full, and to continue to provide health care coverage for Mr. Pichler, his spouse, and his dependents.

EXECUTIVE DEFERRED COMPENSATION PLAN

The Company maintains a non-qualified deferred compensation plan in which all Kroger executives, including the named executive officers, are eligible to participate. Participants may defer up to 100% of their cash compensation each year. Compensation deferred during a deferral year bears interest at the per annum rate determined by the Board prior to the beginning of the deferral year to equal the Company's cost of ten year debt. Deferred amounts are paid out only in cash, in accordance with a deferral option selected by the participant at the time a deferral election is made.

BENEFICIAL OWNERSHIP OF COMMON STOCK

As of March 7, 2005, the directors of the Company, the named executive officers and the directors and executive officers as a group, beneficially owned shares of the Company's common stock as follows:

Name	Amount and Nature of Beneficial Ownership
Reuben V. Anderson	49,800(1)
Robert D. Beyer	41,612(2)
John L. Clendenin	49,800(3)
David B. Dillon	1,586,413(4)(6)(7)
Paul W. Heldman	570,219(4)(7)(8)
Michael S. Heschel	653,463(4)(7)
John T. LaMacchia	54,800(1)
David B. Lewis	8,500(5)
Edward M. Liddy	39,400(9)
Don W. McGeorge	716,279(4)(7)(10)
W. Rodney McMullen	849,579(4)(7)
Clyde R. Moore	26,800(3)
Katherine D. Ortega	52,156(9)
Susan M. Phillips	9,000
Joseph A. Pichler	2,255,370(4)(7)(11)
Steven R. Rogel	28,828(2)
Bobby S. Shackouls	15,800(2)
Directors and Executive Officers as a group (including those named above)	9,318,315(4)(7)(12)(13)

- (1) This amount includes 32,800 shares that represent options that are or become exercisable on or before May 6, 2005.
- (2) This amount includes 8,800 shares that represent options that are or become exercisable on or before May 6, 2005.
- (3) This amount includes 16,800 shares that represent options that are or become exercisable on or before May 6, 2005.
- (4) This amount includes shares that represent options that are or become exercisable on or before May 6, 2005, in the following amounts: Mr. Dillon, 685,000; Mr. Heldman, 348,666; Mr. Heschel, 534,000; Mr. McGeorge, 425,500; Mr. McMullen, 445,000; Mr. Pichler, 1,140,000; and all directors and executive officers as a group, 5,444,984.
- (5) This amount includes 2,000 shares that represent options that are or become exercisable on or before May 6, 2005.
- (6) This amount includes 225,100 shares owned by Mr. Dillon's wife and children, and 54,024 shares in his children's trust. Mr. Dillon disclaims beneficial ownership of these shares.
- (7) The fractional interest resulting from allocations under Kroger's defined contribution plans has been rounded to the nearest whole number.
- (8) This amount includes 320 shares owned by Mr. Heldman's children. Mr. Heldman disclaims beneficial ownership of these shares.

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- (9) This amount includes 24,800 shares that represent options that are or become exercisable on or before May 6, 2005.
- (10) This amount includes 10,062 shares owned by Mr. McGeorge's wife. Mr. McGeorge disclaims beneficial ownership of these shares.
- (11) This amount includes 6,360 shares owned by Mr. Pichler's wife. Mr. Pichler disclaims beneficial ownership of these shares.

- (12) The figure shown includes an aggregate of 32,711 additional shares held by, or for the benefit of, the immediate families or other relatives of all directors and executive officers as a group not listed above. In each case the director or executive officer disclaims beneficial ownership of those shares.
- (13) No director or officer owned as much as 1% of the common stock of the Company. The directors and executive officers as a group beneficially owned 1% of the common stock of the Company.

As of March 7, 2005, the following persons reported beneficial ownership of the Company's common stock based on reports on Schedule 13G filed with the Securities and Exchange Commission or other reliable information as follows:

Name	Address of Beneficial Owner	Amount and Nature of Ownership	Percentage of Class
Brandes Investment Partners, L.P.	11988 El Camino Real, Suite 500		
	San Diego, CA 92130	62,923,093	8.6%
AXA Financial, Inc.	1290 Avenue of the Americas		
	New York, NY 10104	50,277,292	6.9%
The Kroger Co. Savings Plan	1014 Vine Street		
	Cincinnati, OH 45202	57,636,543(1)	7.9%

- (1) Shares beneficially owned by plan trustees for the benefit of participants in employee benefit plans.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the New York Stock Exchange. Those officers, directors, and shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of forms received by the Company, or written representations from certain reporting persons that no Forms 5 were required for those persons, the Company believes that during fiscal year 2004 all filing requirements applicable to its officers, directors and 10% beneficial owners were timely satisfied, with two exceptions. Mr. Michael S. Heschel filed a Form 4 twenty-two days late reporting a transaction with the Company in which shares were used to pay a tax liability associated with restricted stock. Mr. J. Michael Schlotman filed a Form 5 reporting a stock gift that inadvertently was not reported in 2003.

AUDIT COMMITTEE REPORT

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities regarding the Company's financial reporting and accounting practices including the integrity of the Company's financial statements; the Company's compliance with legal and regulatory requirements; the independent auditor's qualifications and independence; the performance of the Company's internal audit function and independent auditors; and the preparation of this report that SEC rules require be included in the Company's annual proxy statement. The Audit Committee performs this work under the guidance of a written charter approved by the Board of Directors. The Audit Committee charter most recently was revised during fiscal 2005. The complete text of the revised charter is reproduced in Appendix 1 to this proxy statement. The Audit Committee has implemented procedures to ensure that during the course of each fiscal year it devotes the attention that is necessary or appropriate to each of the matters assigned to it under the Committee's charter. The Audit Committee held eight meetings during fiscal year 2004. The Audit Committee meets separately with the Company's internal auditor and PricewaterhouseCoopers LLP, without management present, to discuss the results of their audits, their evaluations of the Company's internal controls over financial reporting, and the overall quality of the Company's financial reporting. The Audit Committee also meets separately with the Company's Chief Financial Officer and General Counsel. Following these separate discussions, the Audit Committee meets in executive session.

Management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements, the Company's accounting and financial reporting principles and internal controls, and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent public accountants are responsible for auditing the Company's financial statements and expressing opinions as to their conformity with generally accepted accounting principles and on management's assessment of the effectiveness of the Company's internal control over financial reporting. In addition the independent public accountants will express their own opinion on the effectiveness of the Company's internal control over financial reporting.

In the performance of its oversight function, the Audit Committee has reviewed and discussed with management and the Company's independent public accountants, PricewaterhouseCoopers LLP, the audited financial statements for the year ended January 29, 2005, management's assessment of the effectiveness of the Company's internal control over financial reporting and PricewaterhouseCoopers' evaluation of the Company's internal control over financial reporting. The Audit Committee has also discussed with the independent public accountants the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication With Audit Committees*.

With respect to the Company's independent public accountants, the Audit Committee, among other things, discussed with PricewaterhouseCoopers LLP matters relating to its independence and has received the written disclosures and the letter from the independent public accountants required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*. The Audit Committee has reviewed and approved all services provided to the Company by PricewaterhouseCoopers LLP. The Company's independent public accountants did not perform any internal audit service or participate in the design or implementation of any financial information system. The Audit Committee conducted a review of services provided by PricewaterhouseCoopers LLP which included an evaluation by management and members of the Audit Committee.

Based upon the review and discussions described in this report, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended January 29, 2005, as filed with the Securities and Exchange Commission.

This report is submitted by the Audit Committee.

David B. Lewis, Chair

Bobby S. Shackouls, Vice Chair

Reuben V. Anderson

Robert D. Beyer

Clyde R. Moore

Neither the foregoing Audit Committee Report nor the attached Audit Committee charter will be deemed incorporated by reference into any other filing, absent an express reference thereto.

APPROVAL OF THE 2005 LONG-TERM INCENTIVE PLAN

(ITEM No. 2)

The Board of Directors has adopted, subject to shareholder approval, The Kroger Co. 2005 Long-Term Incentive Plan (Plan) for which a maximum of 20,000,000 shares were reserved. The purpose of the Plan is to assist in attracting and retaining employees and directors of outstanding ability and to align their interests with those of the shareholders of the Company. If approved, the Plan will be effective as of June 23, 2005.

DESCRIPTION OF THE PLAN

General. The Plan consists of two separate programs; the Insider Program and the Non-Insider Program. Officers and directors of the Company subject to Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) are eligible for grants or awards under the Insider Program while all other employees of the Company are eligible for grants or awards under the Non-Insider Program. Currently, 31 employees and directors are eligible to participate in the Insider Program and the remaining approximately 289,000 employees of the Company are eligible to participate in the Non-Insider Program.

Administration. The Insider Program will be administered by a committee of the Board of Directors that meets the standards of Rule 16b-3(d)(1) under the Exchange Act and initially will be the Compensation Committee of the Board of Directors, made up exclusively of independent directors. The Non-Insider Program will be administered by a committee of three officers appointed by the Chief Executive Officer, the members of which are ineligible to receive grants or awards under the Non-Insider Program. The administering committee in each case is referred to as the Committee. The Plan is drafted to maintain the maximum amount of flexibility with the Committee determining the ultimate provisions of each grant or award.

The Committee is authorized to award or grant nonstatutory stock options, stock appreciation rights, performance units, restricted stock and incentive shares to participants under the Insider Program and the Non-Insider Program. The Committee will determine the types and amounts of awards or grants, the recipients of awards or grants, vesting schedules, restrictions, performance criteria, and other provisions of the grants or awards. All of these provisions will be set forth in a written agreement with the participant.

In addition to other rights of indemnification they may have as directors or employees of the Company, members of the Committee will be indemnified by the Company for reasonable expenses incurred in connection with defense of any action brought against them by reason of action taken or failure to act under or in connection with the Plan or any grant or award thereunder, if the members acted in good faith and in a manner that they believed to be in the best interest of the Company.

The Board of Directors may terminate or amend the Plan at any time without shareholder approval, except that it may not amend the Plan without shareholder approval if required by applicable law, regulations, or rules of the principal exchange or interdealer quotation system on which the common stock is listed or quoted. Unless earlier terminated by the Board of Directors, the Plan will terminate on April 8, 2015. Termination of the Plan will have no effect on the validity of any options, stock appreciation rights, performance units, restricted stock or incentive shares outstanding on the date of termination. Unless otherwise provided in the agreement, awards and grants will not be transferable other than by will or the laws of descent and distribution.

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Shares Subject to Grant. Under the Plan up to 20,000,000 authorized but unissued or reacquired shares of common stock may be issued upon the exercise of stock options, stock appreciation rights, performance units,

restricted stock or incentive shares under the Plan. In no event may any participant receive awards and grants totaling more than 3,000,000 shares of common stock in the aggregate under the Plan. The maximum number of shares that may be issued as restricted stock or incentive shares under the Plan is 8,000,000 in the aggregate. However, the Committee under the Insider Program may increase this number but for each share issued for such purpose in excess of 8,000,000, the number of shares that may be issued under the Plan will be reduced by four shares.

If an option, stock appreciation right, or performance unit expires or terminates without having been fully issued, or if restricted stock or incentive shares are not issued or are forfeited prior to the payment of a dividend on those shares to a participant, the shares not exercised, unissued or forfeited, as the case may be, will generally become available for other grants or awards under the Plan.

Stock Options. Nonstatutory stock options granted under the Plan will have exercise prices not less than the greater of the fair market value per share of the optioned stock or the par value of a share of common stock, a term of not more than 10 years after the date of grant, and may not be exercised before six months from the date of grant. The Plan prohibits the repricing of stock options. Subject to the terms of the Plan, the Committee determines the vesting schedule and other terms and conditions applicable to stock options granted to employees. In recent years, option grants generally have not become exercisable earlier than one year from the date of grant. An eligible participant may receive more than one grant of options.

The Committee may in its discretion provide for the payment of the option exercise price otherwise than in cash, including by delivery of common stock, valued at its fair market value on the date of exercise, or by a combination of both cash and common stock.

Stock Appreciation Rights. Stock appreciation rights may be granted in connection with the grant of a nonstatutory option under the Plan, or by amendment of an outstanding nonstatutory stock option granted under the Plan (related rights). In the Committee's sole discretion, a related right may apply to all or a portion of the shares of common stock subject to the related option. Stock appreciation rights may also be granted independently of any option granted under the Plan. A stock appreciation right entitles the grantee upon exercise to elect to receive in cash, common stock or a combination thereof, the excess of the fair market value of a specified number of shares of common stock at the time of exercise over the fair market value of such number of shares of common stock at the time of grant, or, in the case of a related right, the exercise price provided in the related option. To the extent required to comply with the requirements of Rule 16b-3 under the Exchange Act or otherwise provided in an agreement under the Plan, the Committee will have sole discretion to consent to or disapprove the election of any grantee to receive cash in full or partial settlement of a right. A stock appreciation right generally will not be exercisable until at least six months from the date of grant and will have a term of not more than ten years from the date of grant (or, in the case of a related right, not beyond the expiration of the related option).

Performance Units. Performance units may be granted in connection with the grant of a nonstatutory stock option under the Plan, or by amendment of an outstanding nonstatutory stock option granted under the Plan (related performance unit). In the Committee's sole discretion, a related performance unit may apply to all or a portion of the shares of common stock subject to the related option. Performance units may also be granted independently of any option granted under the Plan. In connection with the grant of performance units, the Committee will establish Performance Goals (as defined below) for a specified period.

Upon the exercise of performance units, a grantee will be entitled to receive the payment of such units in accordance with the terms of the award in shares of common stock, cash, or a combination thereof, as the Committee may determine. The values generally will depend upon the extent to which the performance goals for the specified period have been satisfied, as determined by the Committee. Performance goals may be particular to a grantee or the department, branch, subsidiary or other unit in which the grantee works, or may be based on the performance of the Company generally and may cover such periods as may be specified by the Committee. For purposes of the Plan, Performance Goals means performance goals established by the Committee which may be based on earnings or earnings growth, sales, return on assets, equity or investment, regulatory compliance, satisfactory internal or external audits, improvement of financial ratings, achievement of balance sheet, income statement or other financial objectives, or any other objective goals established by the Committee, and may be absolute in their terms or measured against or in relationship to other companies similarly or otherwise situated. Performance units may be exercised only upon the achievement of minimum Performance Goals during the period as determined by the Committee. The Committee will determine the period during which performance units are exercisable and specifically set forth such period in any agreement granting performance units to a participant in the Plan, provided, however, that a performance unit generally may not be exercised until the expiration of at least six months from the date of grant. Performance units will expire no later than ten years from the date of grant (or in the case of a related performance unit, the expiration of the related option). Any performance units paid in the form of cash are deemed to be paid in shares of common stock, with the number of shares being deemed paid equal to the amount of cash paid to the employee divided by the fair market value of a share of common stock on the date of payment.

Restricted Stock. The Committee may award restricted stock to participants. The stock will be subject to forfeiture, restrictions on transferability, and other restrictions as specified in the agreement. The Committee has authority to impose other terms and conditions as it may determine in its discretion including making the vesting of awards contingent on the achievement of Performance Goals. During the period that a restricted stock award is subject to restrictions, an employee has the right to vote the shares and receive dividends.

Incentive Shares. The Committee may grant incentive shares to participants. Incentive share awards will consist of shares of common stock issued or to be issued at such times, subject to achievement of such Performance Goals or other goals and on such other terms and conditions as the Committee deems appropriate and specifies in an agreement relating thereto.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

Nonstatutory Stock Options, Stock Appreciation Rights, and Performance Units. A grantee will not recognize income on the grant of a nonstatutory stock option, stock appreciation right or performance unit, but generally will recognize ordinary income upon the exercise thereof. The amount of income recognized upon the exercise of a nonstatutory stock option generally will be measured by the excess, if any, of the fair market value of the shares at the time of exercise over the exercise price, provided the shares issued are either transferable or not subject to a substantial risk of forfeiture. The amount of income recognized upon the exercise of a stock appreciation right or a performance unit, in general, will be equal to the amount of cash received and the fair market value of any shares received at the time of exercise, provided the shares issued are either transferable or not subject to a substantial risk of forfeiture, plus the amount of any taxes withheld. Under certain circumstances, income on the exercise of a performance unit will be deferred if the grantee makes a proper election to defer such income. In some cases the recognition of income by a grantee from the exercise of a performance unit may be delayed for up to six months if a sale of the shares would subject the grantee to suit under Section 16(b) of the Exchange Act unless the grantee elects to recognize income at the time of receipt of such shares. In either case, the amount of income recognized is measured with respect to the fair market value of the common stock at the time the income is recognized.

In the case of ordinary income recognized by a grantee as described above in connection with the exercise of a nonstatutory stock option, a stock appreciation right, or a performance unit, the Company will be entitled to a deduction in the amount of ordinary income so recognized by the grantee, provided the Company satisfies certain federal income tax withholding requirements.

Incentive Shares and Restricted Stock. A grantee of incentive shares or restricted stock is not required to include the value of such shares in ordinary income until the first time the grantee's rights in the shares are transferable or are not subject to a substantial risk of forfeiture, whichever occurs earlier, unless the grantee elects to be taxed on receipt of the shares. In either case, the amount of such income will be equal to the excess of the fair market value of the stock at the time the income is recognized over the amount paid for the stock. The Company will be entitled to a deduction in the amount of the ordinary income recognized by the grantee for the Company's taxable year which includes the last day of the grantee's taxable year in which such grantee recognizes the income, provided the Company satisfies certain federal income tax withholding requirements.

General. The rules governing the tax treatment of options, stock appreciation rights, performance units, incentive shares and restricted stock and stock acquired upon the exercise of options, stock appreciation rights and performance units are quite technical, so that the above description of tax consequences is necessarily general in nature and does not purport to be complete. Moreover, statutory provisions are, of course, subject to change, as are their interpretations, and their application may vary in individual circumstances. Finally, the tax consequences under applicable state law may not be the same as under the federal income tax laws.

Tax Deductibility Cap. Section 162(m) of the Code provides that certain compensation received in any year by a covered employee in excess of \$1,000,000 is non-deductible by the Company for federal income tax purposes. Section 162(m) provides an exception, however, for performance-based compensation. To the extent practicable under the circumstances, the Committee currently intends to structure grants and awards made under the Plan to covered employees as performance-based compensation that is exempt from Section 162(m).

This summary of the 2005 Long-Term Incentive Plan is qualified in its entirety by the complete text of the Plan that is set forth in Appendix 2 of this Proxy Statement.

THE BOARD OF DIRECTORS AND MANAGEMENT RECOMMEND A VOTE FOR THIS PROPOSAL.

NEW PLAN BENEFITS

Name and Position(1)	2005 Long-Term Incentive Plan	
	Dollar Value	Number of Units
All Groups	(1)	(1)

(1) Awards, values and benefits are not determinable for any Group.

2004 EQUITY COMPENSATION PLAN INFORMATION

The following table provides information regarding shares outstanding and available for issuance under existing stock option plans.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	65,649,738(1)	\$ 17.8049	8,072,418
Equity compensation plans not approved by security holders	1,200	\$ 6.4850	0
Total	65,650,938(1)	\$ 17.8047	8,072,418

The Securities to be issued under plans not approved by shareholders relate to options issued under the Company's 1987 Stock Option Plan and 1988 Stock Option Plan. These plans provided for the issuance of nonqualified stock options and restricted stock to employees of the Company. Both plans expired 10 years after adoption. Although outstanding options continue to be exercisable in accordance with their terms, no additional options may be issued from those plans.

- (1) This amount includes 4,163,863 warrants outstanding and originally issued to The Yucaipa Companies pursuant to a Warrant Agreement dated as of May 23, 1996, between Smith's Food & Drug Centers, Inc. and The Yucaipa Companies, as Consultant.

SELECTION OF AUDITORS**(ITEM No. 3)**

The Audit Committee of the Board of Directors is responsible for the appointment, compensation and retention of the Company's independent auditor, as required by law and by applicable NYSE rules. On April 6, 2005, the Audit Committee appointed PricewaterhouseCoopers LLP as the Company's independent auditor for the fiscal year ending January 28, 2006. While shareholder ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent auditor is not required by the Company's Regulations or otherwise, the Board of Directors is submitting the selection of PricewaterhouseCoopers LLP to shareholders for ratification, as it has in past years, as a good corporate governance practice. If the shareholders fail to ratify the selection, the Audit Committee may, but is not required to, reconsider whether to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different auditor at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

A representative of PricewaterhouseCoopers LLP is expected to be present at the meeting to respond to appropriate questions and to make a statement if he or she desires to do so.

THE BOARD OF DIRECTORS AND MANAGEMENT RECOMMEND A VOTE FOR THIS PROPOSAL.

Disclosure of Auditor Fees

The following describes the fees billed to the Company by PricewaterhouseCoopers LLP related to the fiscal years ended January 29, 2005 and January 31, 2004:

	<u>Fiscal 2004</u>	<u>Fiscal 2003</u>
Audit Fees	\$ 6,052,828	\$ 1,716,174
Audit-Related Fees	247,624	510,217
Tax Fees	264,023	451,128
All Other Fees		
Total	\$ 6,564,475	\$ 2,677,519

Audit Fees for the years ended January 29, 2005 and January 31, 2004, respectively, were for professional services rendered for the audits of the consolidated financial statements of the Company, the issuance of comfort letters to underwriters, consents, income tax provision procedures and assistance with the review of documents filed with the SEC. Approximately \$3,977,000 of the Audit Fees incurred in 2004 represent recurring and non-recurring services associated with the annual audit of the Company's internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002.

Audit-Related Fees for the years ended January 29, 2005 and January 31, 2004, respectively, were for assurance and related services pertaining to employee benefit plan audits, captive insurance company audits, accounting consultations in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation and consultations concerning financial accounting and reporting standards.

Tax Fees for the years ended January 29, 2005 and January 31, 2004, respectively, were for services related to tax compliance, including the preparation of claims for refund; and tax planning and tax advice, including assistance with representation in tax audits and appeals, tax services for employee benefit plans and requests for rulings or technical advice from tax authorities.

All Other Fees. The Company did not engage PricewaterhouseCoopers LLP for other services for the years ended January 29, 2005 and January 31, 2004.

The Audit Committee requires that it approve in advance all audit and non-audit work performed by PricewaterhouseCoopers LLP. On April 6, 2005, the Audit Committee approved services to be performed by PricewaterhouseCoopers LLP for the remainder of 2005 that are related to the audit of the Company or involve the audit itself including work to be performed relating to Section 404 of the Sarbanes-Oxley Act of 2002. If it becomes appropriate during the year to engage the independent accountant for additional services, the Audit Committee must first approve the specific services before the independent accountant may perform the additional work.

The Audit Committee has determined that the non-audit services performed by PricewaterhouseCoopers LLP in 2004 were compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

PricewaterhouseCoopers LLP has advised the Audit Committee that neither the firm, nor any member of the firm, has any financial interest, direct or indirect, in any capacity in the Company or its subsidiaries.

SHAREHOLDER PROPOSAL

(ITEM No. 4)

The Company has been notified by the Amalgamated Bank LongView Collective Investment Fund, 15 Union Square, New York, NY 10003, the beneficial owner of 296,084 shares of Kroger common stock, that it intends to propose the following resolution at the annual meeting:

RESOLVED, that the shareholders of The Kroger Co. (Kroger or the Company), pursuant to Title XVII, section 1701.11 of the Ohio Revised Code and Article VII of the bylaws, hereby amend the Regulations of The Kroger Co. by striking out the words except that the affirmative vote of the holders of record of shares entitling them to exercise 75% of the voting power on such proposal shall be required to amend, alter, change or repeal Sections 1 or 5 of Article II, Article IV, this Article VII, or to amend, alter, change or repeal these regulations in any way inconsistent with the intent of the foregoing provisions , so that Article VII would now read in its entirety:

ARTICLE VII

AMENDMENTS

These regulations may be amended or repealed at any meeting of shareholders called for that purpose by the affirmative vote of the holders of record of shares entitling them to exercise a majority of the voting power on such proposal.

SUPPORTING STATEMENT

This proposal would amend the Company s bylaws or regulations to eliminate a super-majority provision that requires approval by 75% of the outstanding shares [to] amend Kroger s bylaws governing the number of directors, their removal from office and vacancies, their election in staggered, three-year terms and other specified matters (*i.e.*, indemnifying directors, officers and employees; amending the bylaws). This proposal, if adopted, would permit shareholders to amend Kroger s bylaws on all matters by a vote of a majority of the voting power.

We believe that this 75% super-majority requirement should be deleted because it sets an unreasonably high standard for implementing corporate governance changes that may be favored by Kroger shareholders.

One governance change being implemented at a growing number of companies is the annual election of all directors, rather than electing only some directors each year to staggered, multi-year terms. Proponents argue that such declassification of the board is a way to hold all directors more directly accountable to shareholders. Over 40 companies have declassified their boards in this fashion in recent years, including Safeway, Aetna, BellSouth, Pfizer, Dell, Hasbro, Bristol-Myers Squibb, Sprint, Great Lakes Chemical and Dow Jones.

Last year, Kroger shareholders voted on a bylaw amendment to elect all Kroger directors annually, rather than electing one-third of them each year to three-year terms. That declassification proposal received 72.2% of the yes-and-no votes cast, representing 57.4% of the outstanding

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shares. Despite that strong support, the bylaw change failed because it was not supported by 75% of the outstanding shares.

We believe that Kroger's super-majority provision is unwise because it allows holders of a small minority of the outstanding shares to thwart reforms favored by the majority. We believe that Kroger shareholders are competent to decide for themselves, by a majority vote, those issues affecting the election of the board and other matters that currently cannot be changed without attaining a 75% approval level.

We urge you to vote for this resolution.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

Kroger's Regulations, as adopted by shareholders, require an affirmative vote representing at least 75% of the voting power in order to:

change the number of directors;

modify the classified nature of the Board;

remove members from the Board;

change the method of filling vacancies on the Board;

modify indemnification provisions that protect all employees and members of the Board; and

change the provision permitting the Regulations to be amended.

The shareholders added the 75% voting requirement to the Regulations in response to a proposal intending to prevent the frustration of the classified Board structure that previously was implemented by shareholders, and to prevent the holder of a majority of the Company's shares from taking actions that could be inequitable to or undesired by minority shareholders. While the proponent's primary motivation is to permit the Regulations to be amended so that all directors will be elected annually, the proposal has additional undesirable ramifications that give a majority shareholder greater control over the Company. A majority shareholder could modify each of the provisions identified above if shareholders adopt the proposal.

The Board continues to believe that the Regulations, as approved by the shareholders, continue to serve the best interests of the shareholders. If the Regulations are amended in the manner proposed, the protections against a majority shareholder taking control of the Board, and thus the Company, will be eliminated. Other shareholders, employees and other affected constituencies, may not support those actions. The Board opposes the proposal for the following reasons:

Continuity and Experience. The Board of Directors believes that the current Regulations provide for a greater continuity of experience since a majority of directors at any given time will have experience with the business affairs and operations of the Company. This should permit more effective long-term strategic planning in the use of Company resources. The Board believes that continuity and quality of leadership can create long-term value for the shareholders.

Order. The Regulations, as written, reduce the possibility of a sudden or surprise change in majority control of the Board. They also have the effect, in tandem with the warrant dividend plan, of impeding disruptive and inequitable tactics that have become relatively common corporate takeover practices. If the Regulations are amended as proposed, a third party could circumvent the beneficial effects of the warrant dividend plan.

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Value Protection. In the event of a hostile takeover attempt, the fact that approximately two-thirds of the Board members have tenure for more than a year would encourage initiation of arms-length discussions with the Board. The Board is in the best position to evaluate and negotiate a potential transaction that is in the best interests of shareholders and other affected constituencies.

Independence. Classified boards often are challenged based on the perceived adverse impact they have on director independence. The three-year term afforded by Kroger's classified structure can enhance the independence of non-management directors. The longer term reduces management's ability to pressure directors.

Accountability. Directors elected for staggered terms are no less accountable or responsive to shareholders than they would be if all were elected annually or every three years. The same standards of performance apply to all directors regardless of the term of service. The shareholders always retain the ability to replace directors or propose and elect alternate nominees for the class of directors to be elected each year. Therefore, shareholders continue to enjoy a significant opportunity to express their views regarding the Board's performance and to influence the Board's composition.

Indemnification. The indemnification provision is of critical importance to the Company's ability to attract and retain qualified employees and Board members. If the proposal is adopted, a majority shareholder could eliminate or modify the indemnification provision in a way that would encourage incumbent directors or employees to resign. Such a tactic may not be in the best interests of shareholders.

SHAREHOLDER PROPOSAL

(ITEM No. 5)

The Company has been notified by the People for the Ethical Treatment of Animals (PETA), 501 Front Street, Norfolk, VA 23510, the beneficial owner of 244 shares of Kroger common stock, that it intends to propose the following resolution at the annual meeting:

SUPPORTING STATEMENT

Our company has shown its commitment to the important consumer issue of animal welfare by adopting the animal welfare guidelines of the Food Marketing Institute (FMI) and by being one of the first major grocery chains to adopt meaningful animal welfare guidelines. Kroger should be commended for these steps. However, the facilities that supply our restaurants with animal products are still home to abuses that most decent people would deem unacceptable. Our company has taken some laudable first steps to address these issues, but there is much work left to be done.

One area in which much improvement is needed is that of chicken slaughter. Currently, chickens raised for Kroger are hung upside-down by their often-injured legs in painful metal shackles and run through an electrified stun bath that often gives them painful shocks without rendering them insensible to pain. Many are still fully conscious when their throats are slit or when they are dunked into tanks of scalding-hot water for feather removal. Clearly, there are major animal welfare concerns with this outdated process.

Other companies are starting to explore a new slaughter technology known as controlled-atmosphere killing (CAK), which eliminates most-if not all-of these concerns. When using CAK, chickens are placed into a controlled environment where the oxygen they are breathing is slowly replaced with an inert gas, such as argon or nitrogen, putting the birds to sleep quickly and painlessly. CAK is a USDA-approved method of slaughtering chickens and has been described by animal welfare experts as the most stress-free, humane method of killing poultry ever developed. The technology also has positive worker and food safety implications, and it has been shown that the resulting savings would recoup the initial investment in a year and a half or less.

Our company has expressed a desire to be an industry leader in animal welfare and as such, has a responsibility to explore this new technology. CAK is perhaps the single most important scientific advance in the field of chicken slaughter, and our company has acknowledged its responsibility to fully explore advances that can improve animal welfare.

RESOLVED: Shareholders request that the board of directors issue a report to shareholders by January 2006, prepared at reasonable cost and omitting proprietary information, on the feasibility of requiring its chicken suppliers to phase in controlled-atmosphere killing within a reasonable timeframe, with a focus on the animal welfare and economic benefits that this technology could eventually bring to all our company's slaughter facilities.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

As noted by the proponent in its proposal, the Company has shown its commitment to animal welfare by adopting the animal welfare guidelines of the Food Marketing Institute. The proponent also notes that Kroger is one of the first major supermarket companies to adopt meaningful animal welfare guidelines. Certain of the Company's suppliers have evaluated, and continue to evaluate, controlled-atmosphere stunning. These evaluations considered a number of factors, including: animal welfare; scientific research and studies; production methods used commercially both in the U.S. and internationally; food safety and product quality; the safety of humans involved in the slaughter process; technical difficulties in operating equipment and procedures; environmental factors and expected costs. The research is incomplete and inconclusive as to whether controlled-atmosphere stunning is a better and more humane method than conventional stunning methods.

Moreover, the Company's suppliers believe that further research should be conducted to evaluate controlled-atmosphere stunning and its effects on food safety and product quality issues. The Company's first priority has always been the safety and quality of its products. The Company also is committed to the humane treatment of animals. The Company does not own, raise, transport or process livestock. However, it contracts with suppliers who perform these functions and the Company requires that its suppliers comply with government regulations pertaining to the humane treatment of animals. The Company believes that handling animals in a humane manner, and preventing neglect or abuse, is the right thing to do.

The Company's commitment, leadership and results with respect to animal welfare matters are well established, and recognized, within the industry. The Company works hard to be a good corporate citizen and believes in good animal handling practices. Its policies are designed to help to achieve humane treatment of animals. It has been, and will continue to be, committed to upholding and abiding by its established policies and principles. In addition, the Company monitors its suppliers for compliance with the policies it establishes. The Company believes that the proposed animal welfare report is unnecessary and would not result in any additional benefit to shareholders. The proposed report would be costly and time-intensive, and is duplicative of existing policies, initiatives and efforts.

SHAREHOLDER PROPOSAL

(ITEM NO. 6)

The Company has been notified by the AFL-CIO Reserve Fund, 815 Sixteenth Street, N.W., Washington, DC 20006, the beneficial owner of 500 shares of Kroger common stock, that it intends to propose the following resolution at the annual meeting:

Resolved: the shareholders of The Kroger Company (the "Company") urge the Board of Directors to seek shareholder approval for severance agreements with senior executives that provide benefits in an amount exceeding 2.99 times the sum of the executive's average W-2 compensation over the preceding five years. This policy shall apply to existing severance agreements only if they can be legally modified by the Company, and will otherwise apply to all new severance agreements and renewals of existing agreements.

SUPPORTING STATEMENT

We believe our Company should adopt a policy either limiting the use of executive severance agreements or else submit these agreements for shareholder approval.

For example, according to the 2004 proxy statement, the Company's employment agreement with the Chairman of the Board and former CEO Joseph Pichler provided that if Mr. Pichler was involuntarily terminated, the Company would pay Mr. Pichler's salary for five years or until October 4, 2005 (whichever comes first), and would also provide lifetime health care coverage for Mr. Pichler, his spouse, and his dependents.

All management employees, including executive officers, are already covered by The Kroger Co. Employee Protection Plan, which provides severance benefits and the extension of Company-paid health care to employees terminated without cause within two years following a change of control of the Company. For persons over 40 with over six years of service, severance pay ranges from approximately 9 to 18 months' salary and bonus.

We are concerned that golden parachutes can encourage senior executives to support a takeover that may not be in the best interests of long-term shareholders because executives will be generously rewarded if a takeover occurs. Moreover, we believe that golden parachute payments may reward under performance leading up to a change in control and their cost may reduce the value ultimately received by shareholders.

Large golden parachutes can also have negative tax implications. Internal Revenue Code Section 280G limits the tax deductibility of golden parachutes if the severance payments generally exceed three times the executive's average W-2 compensation over the preceding five years. In addition, under Internal Revenue Code Section 4999, golden parachute payments that exceed this level are subject to an excess parachute payment excise tax.

Because it is not always practical to obtain prior shareholder approval, the Company would have the option, if it implemented this proposal, of seeking approval after the material terms of the agreement were agreed upon. Many investors including the California Public Employees Retirement System, the Council of Institutional Investors, and Institutional Shareholders Services generally favor requiring shareholder approval of these types of severance agreements.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

The Board concurs with the proponent that unreasonably large severance arrangements are not appropriate. Moreover, under current circumstances, the limitations on severance arrangements proposed in this resolution appear to be sensible. Nonetheless, adoption of this proposal would arbitrarily limit Kroger's flexibility to design employment arrangements as needed, based on future circumstances that cannot be predicted, to attract and retain qualified executives.

Because of the market competition for qualified executives, we must have the flexibility to offer competitive employment packages to retain our own executives, as well as to motivate other valuable executives to join Kroger. In addition, when negotiating business acquisitions, it may become necessary to provide competitive incentives to retain key executives of businesses acquired. Moreover, executives at acquired companies frequently have employment agreements containing severance provisions, and our ability to complete an acquisition could be impaired if the proposal were implemented.

The Compensation Committee of the Board of Directors, made up exclusively of independent directors, determines whether the Company should enter into employment arrangements with top executive officers. The Compensation Committee, with the help of its advisors, has the expertise and familiarity with the market necessary to make prudent decisions about compensation. If the Compensation Committee believes that an employment agreement is in the best interest of Kroger and its shareholders, it needs the flexibility to offer an unconditional agreement without delay. This flexibility would be substantially undermined by a requirement for shareholder approval.

Kroger must compete for talented executives with other organizations and would be at a competitive disadvantage in attracting qualified executives who do not want to be subject to the uncertainty or delay created by the shareholder approval requirement.

SHAREHOLDER PROPOSALS – 2006 ANNUAL MEETING. Shareholder proposals intended for inclusion in the Company's proxy material relating to the Company's annual meeting in June 2006 should be addressed to the Secretary of the Company and must be received at the Company's executive offices not later than January 16, 2006. These proposals must comply with the proxy rules established by the Securities and Exchange Commission. In addition, the proxy solicited by the Board of Directors for the 2006 annual meeting of shareholders will confer discretionary authority to vote on any shareholder proposal presented at the meeting unless the Company is provided with notice of the proposal before April 1, 2006.

Attached to this Proxy Statement is the Company's 2004 Annual Report which includes a brief description of the Company's business indicating its general scope and nature during 2004, together with the audited financial information contained in the Company's 2004 report to the Securities and Exchange Commission on Form 10-K. **A copy of that report is available to shareholders on request by writing to: Scott M. Henderson, Treasurer, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45202-1100 or by calling 1-513-762-1220.** The Company's SEC filings are available to the public from the SEC's web site at <http://www.sec.gov>.

The management knows of no other matters that are to be presented at the meeting but, if any should be presented, the Proxy Committee expects to vote thereon according to its best judgment.

By order of the Board of Directors,

Paul W. Heldman, Secretary

APPENDICES

Appendix 1

AUDIT COMMITTEE CHARTER

I. Purpose

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities regarding The Kroger Co.'s financial reporting and accounting practices including the integrity of the Company's financial statements; the Company's compliance with legal and regulatory requirements; the independent auditor's qualifications and independence; the performance of the Company's internal audit function and independent auditors; and the preparation of the report that SEC rules require be included in the Company's annual proxy statement.

II. Composition

The Audit Committee will be composed of three or more directors, as determined by the Board of Directors, each of whom must be independent directors (as defined by the NYSE listing requirements and Rule 10A-3) and free from any relationship that, in the opinion of the Board of Directors, would interfere with their exercise of independent judgment as a member of the Audit Committee. The Corporate Governance Committee of the Board will establish committee membership and will be empowered to remove Audit Committee members at any time. Audit Committee members may not serve on the audit committee of more than three public companies, unless approved in advance by the entire Board of Directors.

All members of the Audit Committee must have a working knowledge of financial and accounting practices and must be financially literate as determined by the Board of Directors in its business judgment. At least one member of the Audit Committee must be an audit committee financial expert as defined in Item 401(h) of Regulation S-K.

All members of the Audit Committee must comply with all requirements of the NYSE, SEC and all other applicable regulatory authorities.

III. Meetings

The Audit Committee will meet four times each year, or more frequently as circumstances dictate, and will report to the full Board after each meeting. To foster open communications, the Audit Committee will meet separately and at least quarterly with management, the independent auditors and the Vice President of Auditing to discuss any matters that the Audit Committee or each of these groups believe should be discussed privately. The Audit Committee will meet with its independent counsel as necessary.

IV. Responsibilities and Duties

The Audit Committee will:

1. Review and assess, annually or more frequently as circumstances dictate, the adequacy of this Charter. Make recommendations to the Corporate Governance Committee to amend this Charter.

2. Meet to review and discuss with management and the independent auditors the Company's annual audited financial statements, including the Company's specific disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations, and any certification, report or opinion rendered by the Company's independent auditors or the Company's Principal Executive or Financial Officers in connection with those financial statements prior to filing with a regulatory agency.
3. Meet to review and discuss with management and the independent auditors the quarterly financial statements, including the Company's specific disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations and any certification, report or opinion rendered by the Company's independent auditors or the Company's Principal Executive or Financial Officers in connection with those financial statements prior to filing with a regulatory agency.
4. Discuss the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.
5. Review material changes in accounting policies, financial reporting practices and material developments in financial reporting standards brought to the attention of the Audit Committee by the Company's management or independent auditors.
6. Review material questions of choice with respect to the appropriate accounting principles and practices to be used in the preparation of the Company's financial statements and brought to the attention of the Audit Committee by the Company's management or independent auditors.
7. Review the performance of the independent auditors. The Audit Committee has the authority and responsibility to select; evaluate; compensate; oversee; and, where appropriate, replace the independent auditors, which will report directly to the Audit Committee. The Audit Committee will oversee compliance by the independent auditors with the applicable requirements respecting the rotation of audit partners.
8. Consider the independence of the independent auditors at least annually, and review an annual written statement, prepared by the independent auditors, delineating all relationships between the independent auditors and the Company, consistent with the Independence Standards Board Standard No. 1, regarding relationships and services, which may affect the independence of the independent auditors.
9. Obtain and review an annual written report, prepared by the independent auditors, describing: their internal quality control procedures and any material issues raised by the most recent internal quality control review or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.
10. In consultation with management, the independent auditors and the internal auditors, review the reliability and integrity of the Company's financial accounting policies and financial reporting processes and disclosure practices.
11. Discuss with management the major areas of risk exposure and management's efforts to monitor and control such exposure, and discuss policies with respect to risk assessment and risk management.
12. Review any significant disagreement among management and the independent auditors or the internal auditing department in connection with the preparation of the financial statements.

13. Review annually the audit plans of both the internal auditor and the independent auditors.
14. Review periodically with the independent and internal auditors any audit problems or difficulties and management's responses.
15. Review with the Company's counsel any legal matter that could have a significant effect on the Company.
16. Approve in advance all audit and non-audit services to be performed by the independent auditors.
17. Establish and oversee procedures for the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting and auditing matters.
18. Establish procedures for compliance with and reporting violations of The Kroger Co. Policy on Business Ethics, applicable to all employees and members of the Board of Directors.
19. Annually evaluate the Audit Committee's performance and discuss the evaluation with the full Board of Directors.
20. Set clear hiring policies for employees or former employees of the independent auditors.

V. Outside Advisors

The Audit Committee may retain at the Company's expense independent counsel, accountants or other advisors for such purposes as the Audit Committee, in its sole discretion, determines to be appropriate, and will receive appropriate funding from the Company, as determined by the Audit Committee, for the payment of compensation to any such advisors.

THE KROGER CO.

2005 LONG-TERM INCENTIVE PLAN

1. Definitions

In this Plan the following definitions will apply:

1.1 **Agreement** means a written agreement implementing a grant of an Option, Right or Performance Unit or an award of Restricted Stock or Incentive Shares.

1.2 **Board** means the Board of Directors of the Company.

1.3 **Code** means the Internal Revenue Code of 1986, as amended.

1.4 **Committee** means the committee appointed to administer each of the Programs under the Plan. For purposes of the Insider Program the Committee will be a committee of the Board meeting the standards of Rule 16b-3(d)(1) under the Exchange Act, or any similar successor rule, appointed by the Board to administer the Insider Program, which initially will be composed of those members of the Compensation Committee of the Board who qualify as outside directors under Section 162(m) of the Code. For purposes of the Non-Insider Program, the Committee will be the Stock Option Committee.

1.5 **Common Stock** means the common stock, par value \$1.00 per Share, of the Company.

1.6 **Company** means THE KROGER CO.

1.7 **Date of Exercise** means the date on which the Company receives notice of the exercise of an Option, Right or Performance Unit in accordance with the terms of Article 9.

1.8 **Date of Grant** means the date on which an Option, Right or Performance Unit is granted or Restricted Stock or Incentive Shares are awarded by the Committee.

1.9 **Director** means a member of the Board of the Company.

1.10 Employee means any person determined by the Committee to be an employee of the Company or a Subsidiary.

1.11 Exchange Act means the Securities Exchange Act of 1934, as amended.

1.12 Fair Market Value of a Share of Common Stock means the amount equal to the fair market value of a Share of Common Stock determined pursuant to a reasonable method adopted by the Committee in good faith for such purpose. Unless otherwise provided in an Agreement to the contrary, the Fair Market Value of a Share will be the mean between the highest and lowest selling price on the date of determination on the New York Stock Exchange--Composite Transactions, or if no sales are made on such date, on the most recent prior date for which sales are reported.

1.13 Grantee means an Employee or a Director to whom Restricted Stock has been awarded pursuant to Article 11 or to whom Incentive Shares have been awarded pursuant to Article 12.

- 1.14 Incentive Share means a Share awarded pursuant to Article 12.
- 1.15 Insider means an officer of the Company subject to Section 16(a) of the Exchange Act.
- 1.16 Insider Program means that portion of the Plan under which grants or awards are made to Insiders and Directors.
- 1.17 Non-Insider Program means that portion of the Plan under which grants or awards are made to Employees, excluding Insiders.
- 1.18 Option means a nonstatutory stock option granted under the Plan that does not qualify as an incentive stock option under Section 422 of the Code.
- 1.19 Option Period means the period during which an Option may be exercised.
- 1.20 Option Price means the price per Share at which an Option may be exercised. The Option Price will be determined by the Committee, but in no event will the Option Price of an Option be less than the Fair Market Value per Share determined as of the Date of Grant, and, except as otherwise permitted pursuant to Article 13 or Article 15, the Option Price of an Option as set forth on the Date of Grant will not be reduced during the term of the Option (i.e., Options will not be repriced).
- 1.21 Optionee means an Employee or Director to whom an Option, Right or Performance Unit has been granted.
- 1.22 Performance Goals means performance goals established by the Committee that may be based on earnings or earnings growth, sales, return on assets, equity or investment, regulatory compliance, satisfactory internal or external audits, improvement of financial ratings, achievement of balance sheet, income statement or other financial statement objectives, or any other objective goals established by the Committee, and may be absolute in their terms or measured against or in relationship to other companies similarly or otherwise situated. Performance goals may be particular to an employee or the department, branch, Subsidiary or other division in which he or she works, or may be based on the performance of the Company generally, and may cover such period as may be specified by the Committee.
- 1.23 Performance Unit means a performance unit granted under the Plan in accordance with Article 8.
- 1.24 Performance Unit Period means the period during which a Performance Unit may be exercised.
- 1.25 Plan means THE KROGER CO. 2005 Long-Term Incentive Plan.

1.26 Related Option means the Option in connection with which, or by amendment to which, a specified Right or Performance Unit is granted.

1.27 Related Performance Unit means the Performance Unit granted in connection with, or by amendment to, a specified Option.

1.28 Related Right means the Right granted in connection with, or by amendment to, a specified Option.

1.29 **Restricted Stock** means Shares awarded pursuant to Article 11.

1.30 **Right** means a stock appreciation right granted under the Plan pursuant to Article 7.

1.31 **Right Period** means the period during which a Right may be exercised.

1.32 **Share** means a share of authorized but unissued Common Stock or a reacquired share of issued Common Stock.

1.33 **Stock Option Committee** means a committee of three or more members appointed by the Chief Executive Officer of the Company to administer the Non-Insider Program, each of whom is ineligible to receive grants or awards under the Non-Insider Program, and has been so ineligible for at least one year.

1.34 **Subsidiary** means a corporation at least 50% of the total combined voting power of all classes of stock of which is owned by the Company, either directly or through one or more other Subsidiaries.

2. Purpose

The Plan is intended to assist in attracting and retaining Employees and Directors of outstanding ability and to promote the identification of their interests with those of the shareholders of the Company.

3. Administration

The Plan will be administered by the Committee. In addition to any other powers granted to the Committee, it will have the following powers, subject to the express provisions of the Plan:

3.1 to determine in its discretion the Employees to whom Options, Performance Units or Rights will be granted and to whom Restricted Stock and Incentive Shares will be awarded, the number of Shares to be subject to each Option, Right, Performance Unit, Restricted Stock or Incentive Share award, and the terms upon which Options, Rights or Performance Units may be acquired and exercised and the terms and conditions of Restricted Stock and Incentive Share awards;

3.2 to determine all other terms and provisions of each Agreement, which need not be identical;

3.3 without limiting the generality of the foregoing, to provide in its discretion in an Agreement:

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(a) for an agreement by the Optionee or Grantee to render services to the Company or a Subsidiary upon such terms and conditions as may be specified in the Agreement, provided that the Committee will not have the power to commit the Company or any Subsidiary to employ or otherwise retain any Optionee or Grantee;

(b) for restrictions on the transfer, sale or other disposition of Shares issued to the Optionee upon the exercise of an Option, Right or Performance Unit, for other restrictions permitted by Article 11 with respect to Restricted Stock or for conditions with respect to the issuance of Incentive Shares;

(c) for an agreement by the Optionee or Grantee to resell to the Company, under specified conditions, Shares issued upon the exercise of an Option, Right or Performance Unit or awarded as Restricted Stock or Incentive Shares;

(d) for the payment of the Option Price upon the exercise by an Employee or Director of an Option otherwise than in cash, including without limitation by delivery of shares of Common Stock (other than Restricted Stock) valued at Fair Market Value on the Date of Exercise of the Option, or a combination of cash and shares of Common Stock; and

(e) for the deferral of receipt of amounts that otherwise would be distributed upon exercise of a Performance Unit, the terms and conditions of any such deferral and any interest or dividend equivalent or other payment that will accrue with respect to deferred distributions;

3.4 to construe and interpret the Agreements and the Plan;

3.5 to require, whether or not provided for in the pertinent Agreement, of any person exercising an Option, Right or Performance Unit or acquiring Restricted Stock or Incentive Shares, at the time of such exercise or acquisition, the making of any representations or agreements that the Committee may deem necessary or advisable in order to comply with the securities laws of the United States or of any state;

3.6 to provide for satisfaction of an Optionee's or Grantee's tax liabilities arising in connection with the Plan through, without limitation, retention by the Company of shares of Common Stock otherwise issuable on the exercise of an Option, Right or Performance Unit or pursuant to an award of Incentive Shares or through delivery of Common Stock to the Company by the Optionee or Grantee under such terms and conditions as the Committee deems appropriate; and

3.7 to make all other determinations and take all other actions necessary or advisable for the administration of the Plan.

Any determinations or actions made or taken by the Committee pursuant to this Article will be binding and final.

4. Eligibility

Options, Rights, Performance Units, Restricted Stock and Incentive Shares may be granted or awarded only to Employees and Directors. In no event may any participant receive awards and grants totaling more than 3,000,000 Shares in the aggregate under this Plan.

5. Stock Subject to the Plan

5.1 The maximum number of Shares that may be issued under the Plan is 20,000,000 Shares. Except as otherwise provided in the following sentence, the maximum number of Shares that may be issued as Restricted Stock or Incentive Shares under the Plan is 8,000,000 Shares in the aggregate. Notwithstanding the foregoing, the Committee for the Insider Program may increase the number of Shares that may be issued as Restricted Stock or Incentive Shares to an amount in excess of 8,000,000 Shares, provided that for each such Share in excess of 8,000,000 Shares that are issued as Restricted Stock or Incentive Shares, in the aggregate, the number of Shares that may be issued under the Plan will be reduced by four Shares. In addition to the decisions that it makes in administering the Insider Program, annually the Committee for the Insider Program will approve the number of Shares to be granted under the Non-Insider Program for that fiscal year.

5.2 If an Option, Right or Performance Unit expires or terminates for any reason (other than termination by virtue of the exercise of a Related Option, Related Right or a Related Performance Unit, as the case may be) without having been fully exercised, if Shares of Restricted Stock are forfeited or if Incentive Shares are not issued or are forfeited, the unissued or forfeited Shares that had been subject to the Agreement relating thereto will become available for the grant of other Options, Rights and Performance Units or for the award of additional Restricted Stock or Incentive Shares, provided that in the case of forfeited Shares, the Grantee has received no dividends prior to forfeiture with respect to such Shares.

5.3 The Shares issued upon the exercise of a Right or Performance Unit (or, if cash is payable in connection with such exercise, that number of Shares having a Fair Market Value equal to the cash payable upon such exercise), will be charged against the number of Shares issuable under the Plan and will not become available for the grant of other Options, Rights and Performance Units or for the award of Restricted Stock or Incentive Shares. If the Right referred to in the preceding sentence is a Related Right, or if the Performance Unit referred to in the preceding sentence is a Related Performance Unit, the Shares subject to the Related Option, to the extent not charged against the number of Shares subject to the Plan in accordance with this Section 5.3, will become available for the grant of other Options, Rights and Performance Units or for the award of additional Restricted Stock or Incentive Shares.

6. Options

6.1 The Committee is authorized to grant Options to Employees and Directors.

6.2 The Option Period for Options granted to Employees and Directors will be determined by the Committee and specifically set forth in the Agreement. No Option will be exercisable before six months after the Date of Grant (except that this limitation need not apply in the event of the death or disability of the Optionee within the six-month period) or after ten years from the Date of Grant.

6.3 The maximum number of Shares of Common Stock with respect to which Options may be granted to any Employee or Director under this Plan during its term is 3,000,000 Shares. In no event will the Option Price of an Option be less than the Fair Market Value of a Share of Common Stock at the time of the grant.

6.4 All other terms of Options granted under the Plan will be determined by the Committee in its sole discretion.

7. Rights

7.1 The Committee is hereby authorized to grant Rights to Employees and Directors.

7.2 A Right may be granted under the Plan:

(a) in connection with, and at the same time as, the grant of an Option under the Plan;

(b) by amendment of an outstanding Option granted under the Plan; or

(c) independently of any Option granted under the Plan.

A Right granted under clause (a) or (b) of the preceding sentence is a Related Right. A Related Right may, in the Committee's discretion, apply to all or a portion of the Shares subject to the Related Option.

7.3 A Right may be exercised in whole or in part as provided in the Agreement, and, subject to the provisions of the Agreement, entitles its Optionee to receive, without any payment to the Company (other than required income tax withholding amounts), either cash or that number of Shares (equal to the highest whole number of Shares), or a combination thereof, in an amount or having a Fair Market Value determined as of the Date of Exercise not to exceed the number of Shares subject to the portion of the Right exercised multiplied by an amount equal to the excess of (i) the Fair Market Value of a share of Common Stock on the Date of Exercise of the Right over (ii) either (A) the Fair Market Value of a share of Common Stock on the Date of Grant of the Right if it is not a Related Right, or (B) the Option Price as provided in the Related Option if the Right is a Related Right.

7.4 The Right Period will be determined by the Committee and specifically set forth in the Agreement, provided, however

(a) a Right may not be exercised before the expiration of six months from the Date of Grant (except that this limitation need not apply in the event of the death or disability of the Optionee within the six-month period);

(b) a Right will expire no later than the earlier of (i) ten years from the Date of Grant, or (ii) in the case of a Related Right, the expiration of the Related Option; and

(c) a Right may be exercised only when the Fair Market Value of a share of Common Stock exceeds either (i) the Fair Market Value of a share of Common Stock on the Date of Grant of the Right if it is not a Related Right, or (ii) the Option Price as provided in the Related Option if the Right is a Related Right.

7.5 The exercise, in whole or in part, of a Related Right will cause a reduction in the number of Shares subject to the Related Option equal to the number of Shares with respect to which the Related Right is exercised. Similarly, the exercise, in whole or in part, of a Related Option will cause a reduction in the number of Shares subject to the Related Right equal to the number of Shares with respect to which the Related Option is exercised.

7.6 Rights granted under the Plan, to the extent determined by the Committee, will comply with the requirements of Rule 16b-3(d) under the Exchange Act during the term of this Plan. Should any additional provisions be necessary for this Article 7 to comply with the requirements of Rule 16b-3(d) or any other rules or regulations, the Board may amend this Plan to delete, add to or modify the provisions of the Plan accordingly, subject to the provisions of Article 14, if applicable. The Company intends to comply, if and to the extent applicable, with the requirements of Rule 16b-3(d); however, the Company's failure for any reason whatsoever to comply with such requirements or with any other requirements of Rule 16b-3, and any resultant unavailability of Rule 16b-3(d) to Optionees will not impose any liability on the Company to any Optionee or any other party.

7.7 To the extent required by Rule 16b-3(d) under the Exchange Act or otherwise provided in the Agreement, the Committee will have sole discretion to consent to or disapprove the election of any Optionee to receive cash in full or partial settlement of a Right. In cases where an election of settlement in cash must be consented to by the Committee, the Committee may consent to, or disapprove, such election at any time after such election, or within such period for taking action as is specified in the election, and failure to give consent will be disapproval. Consent may be given in whole or as to a portion of the Right surrendered by the Optionee. If the election to receive cash is disapproved in whole or in part, the Right will be deemed to have been exercised for Shares, or, if so specified in the notice of exercise and election, not to have been exercised to the extent the election to receive cash is disapproved.

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7.8 The maximum number of Shares of Common Stock with respect to which Rights may be granted to any Employee or Director under this Plan during its term is 3,000,000 Shares.

8. Performance Units

8.1 The Committee is hereby authorized to grant Performance Units to Employees and Directors.

8.2 Performance Units may be granted under the Plan:

(a) in connection with, and at the same time as, the grant of an Option under the Plan;

(b) by amendment of an outstanding Option under the Plan; or

(c) independently of any Option granted under the Plan.

A Performance Unit granted under clause (a) or (b) of the preceding sentence is a Related Performance Unit. A Related Performance Unit may, in the Committee's discretion, apply to all or a portion of the shares subject to the Related Option.

8.3 A Performance Unit may be exercised in whole or in part as provided in the Agreement, and, subject to the provisions of the Agreement, entitles its Optionee to receive, without any payment to the Company (other than required income tax withholding amounts), cash, Shares or a combination of cash and Shares, based upon the degree to which Performance Goals established by the Committee and specified in the Agreement have been achieved.

8.4 The Performance Unit Period will be determined by the Committee and specifically set forth in the Agreement, provided, however

(a) a Performance Unit may not be exercised before the expiration of six months from the Date of Grant (except that this limitation need not apply in the event of the death or disability of the Optionee within the six-month period); and

(b) a Performance Unit will expire no later than the earlier of (i) ten years from the Date of Grant, or (ii) in the case of a Related Performance Unit, the expiration of the Related Option.

8.5 Each Agreement granting Performance Units will specify the number of Performance Units granted; provided, however, that the maximum number of Related Performance Units may not exceed the maximum number of Shares subject to the Related Option.

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8.6 The exercise, in whole or in part, of Related Performance Units will cause a reduction in the number of Shares subject to the Related Option and the number of Performance Units in accordance with the terms of the Agreement. Similarly, the exercise, in whole or in part, of a Related Option, will cause a reduction in the number of Shares subject to the Related Performance Unit equal to the number of Shares with respect to which the Related Option is exercised.

8.7 Performance Units granted under the Plan, to the extent determined by the Committee, will comply with the requirements of Rule 16b-3(d) under the Exchange Act during the term of this Plan. Should any additional provisions be necessary for this Article 8 to comply with the requirements of Rule 16b-3(d) or any other applicable rule or regulation, the Board may amend this Plan to delete, add to or modify the provisions of the Plan accordingly, subject to the provisions of Article 14, if applicable. The Company intends to comply, if and to the extent applicable, with the requirements of Rule 16b-3(d); however, the Company's failure for any reason whatsoever to comply with such requirements or with any other requirements of Rule 16b-3, and any resultant unavailability of Rule 16b-3(d) to Optionees will not impose any liability on the Company to any Optionee or any other party.

8.8 To the extent required by Rule 16b-3(d) under the Exchange Act or otherwise provided in the Agreement, the Committee will have sole discretion to consent to or disapprove the election of any Optionee to receive cash in full or partial settlement of a Performance Unit. In cases where an election of settlement in cash must be consented to by the Committee, the Committee may consent to, or disapprove, such election at any time after such election, or within such period for taking action as is specified in the election, and failure to give consent will be disapproval. Consent may be given in whole or as to a portion of the Performance Unit surrendered by the Optionee. If the election to receive cash is disapproved in whole or in part, the Performance Unit will be deemed to have been exercised for Shares, or, if so specified in the notice of exercise and election, not to have been exercised to the extent the election to receive cash is disapproved.

8.9 The maximum number of Shares that may be issued to any Employee or Director pursuant to the exercise of Performance Units may not exceed 3,000,000 Shares. For purposes of the preceding sentence, any Performance Units paid in the form of cash will be deemed to have been paid in Shares, with the number of Shares being deemed paid equal to the amount of cash paid to the Employee or Director divided by the Fair Market Value of a Share on the date of payment.

9. Exercise

An Option, Right or Performance Unit, subject to the provisions of the Agreement under which it was granted, may be exercised in whole or in part by the delivery to the Company of written notice of the exercise, in such form as the Committee may prescribe, accompanied, in the case of an Option, by (i) full payment for the Shares with respect to which the Option is exercised, or (ii) irrevocable instructions to a broker selected by the Committee to consummate cashless exercises to deliver promptly to the Company cash equal to full payment for the Shares for which the Option is exercised.

10. Non-transferability

Unless otherwise provided in the Agreement respecting the grant or award, Options, Rights, Performance Units and Incentive Shares granted or awarded under the Plan will not be transferable otherwise than by will or the laws of descent and distribution, and an Option, Right or Performance Unit may be exercised during his or her lifetime only by the Optionee or, in the event of his or her legal disability, by his or her legal representative. A Related Right or Related Performance Unit is transferable only when the Related Option is transferable and only with the Related Option and under the same conditions.

11. Restricted Stock Awards

11.1 The Committee is hereby authorized to award Shares of Restricted Stock to Employees and Directors.

11.2 Restricted Stock awards under the Plan will consist of Shares that are restricted against transfer, subject to forfeiture, and subject to such other terms and conditions intended to further the purposes of the Plan as may be determined by the Committee. The terms and conditions may provide, in the discretion of the Committee, for the vesting of such awards to be contingent upon the achievement of one or more Performance Goals.

11.3 Restricted Stock awards will be evidenced by Agreements containing provisions setting forth the terms and conditions governing such awards. Each such agreement will contain the following:

(a) prohibitions against the sale, assignment, transfer, exchange, pledge, hypothecation, or other encumbrance of (i) the Shares awarded as Restricted Stock under the Plan, (ii) the right to vote the Shares, or

(iii) the right to receive dividends thereon in each case during the restriction period applicable to the Shares; provided, however, that the Grantee will have all the other rights of a shareholder including, but not limited to, the right to receive dividends and the right to vote the Shares;

(b) at least one term, condition or restriction constituting a substantial risk of forfeiture as defined in Section 83(c) of the Code;

(c) such other terms, conditions and restrictions as the Committee in its discretion may specify (including, without limitation, provisions creating additional substantial risks of forfeiture);

(d) a requirement that each certificate representing Shares of Restricted Stock must be deposited with the Company, or its designee, and will bear the following legend:

This certificate and the shares of stock represented hereby are subject to the terms and conditions (including the risks of forfeiture and restrictions against transfer) contained in THE KROGER CO. 2005 Long-Term Incentive Plan and an Agreement entered into between the registered owner and The Kroger Co. Release from such terms and conditions will be made only in accordance with the provisions of the Plan and the Agreement, a copy of each of which is on file in the office of the Secretary of The Kroger Co.

(e) the applicable period or periods of any terms, conditions or restrictions applicable to the Restricted Stock, provided, however, that the Committee in its discretion may accelerate the expiration of the applicable restriction period with respect to any part or all of the Shares awarded to a Grantee; and

(f) the terms and conditions upon which any restrictions upon Shares of Restricted Stock awarded under the Plan will lapse and new certificates free of the foregoing legend will be issued to the Grantee or his or her legal representative.

11.4 The Committee may include in an Agreement a requirement that in the event of a Grantee's termination of employment for any reason prior to the lapse of restrictions, all Shares of Restricted Stock will be forfeited by the Grantee to the Company without payment of any consideration by the Company, and neither the Grantee nor any successors, heirs, assigns or personal representatives of the Grantee will thereafter have any further rights or interest in the Shares or certificates.

11.5 The maximum number of Shares of Restricted Stock that may be awarded to any Employee or Director under this Plan during its term is 3,000,000 Shares.

12. Incentive Share Awards

12.1 The Committee is hereby authorized to award Incentive Shares to Employees and Directors.

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12.2 Incentive Shares will be Shares that are issued at such times, subject to achievement of such Performance Goals or other goals and on such other terms and conditions as the Committee deems appropriate and specify in the Agreement relating thereto.

12.3 The maximum number of Shares of Incentive Shares that may be awarded to any Employee or Director under this Plan during its term is 3,000,000 Shares.

13. Capital Adjustments

The number and class of Shares subject to each outstanding Option, Right or Performance Unit or Restricted Stock or Incentive Share award, the Option Price and the aggregate number and class of Shares for which grants or awards thereafter may be made will be subject to such adjustment, if any, as the Committee in its sole discretion deems appropriate to reflect such events as stock dividends, stock splits, adoption of stock rights plans, recapitalizations, mergers, consolidations or reorganizations of or by the Company.

14. Termination or Amendment

The Board may amend or terminate this Plan in any respect at any time. Board approval must be accompanied by (i) shareholder approval in those cases in which amendment requires shareholder approval under applicable law or regulations or the requirements of the principal exchange or interdealer quotation system on which the Common Stock is listed or quoted, and (ii) affected Optionee or Grantee approval if the amendment or termination would adversely affect the holder's rights under any outstanding grants or awards.

15. Modification, Extension and Renewal of Options, Rights, Performance Units, Restricted Stock and Incentive Shares

Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify, extend or renew outstanding Options, Rights and Performance Units, or accept the surrender of outstanding options, rights and performance units (to the extent not theretofore exercised) granted under the Plan or under any other plan of the Company, a Subsidiary or a company or similar entity acquired by the Company or a Subsidiary, and authorize the granting of new Options, Rights and Performance Units pursuant to the Plan in substitution therefor (to the extent not theretofore exercised), and the substituted Options, Rights and Performance Units may specify a longer term than the surrendered options, rights and performance units or may have any other provisions that are authorized by the Plan; provided that the exercise price may not be less than that of the surrendered option, rights and performance units. Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify the terms of any outstanding Agreement providing for awards of Restricted Stock or Incentive Shares. Notwithstanding the foregoing, however, no modification of an Option, Right or Performance Unit granted under the Plan, or an award of Restricted Stock or Incentive Shares, will, without the consent of the Optionee or Grantee, alter or impair any of the Optionee's or Grantee's rights or obligations.

16. Effectiveness of the Plan

The Plan and any amendments requiring shareholder approval pursuant to Article 14 are subject to approval by vote of the shareholders of the Company within 12 months after their adoption by the Board. Subject to that approval, the Plan is effective upon approval by the shareholders and any amendments are effective on the date on which they are adopted by the Board. Options, Rights, Performance Units, Restricted Stock and Incentive Shares may be granted or awarded prior to shareholder approval of the Plan or amendments, but each such Option, Right, Performance Unit, Restricted Stock or Incentive Share grant or award will be subject to the approval of the Plan or amendments by the shareholders. The date on which any Option, Right, Performance Unit, Restricted Stock or Incentive Shares granted or awarded prior to shareholder approval of the Plan or amendment is granted or awarded will be the Date of Grant for all purposes as if the Option, Right, Performance Unit, Restricted Stock or Incentive Shares had not been subject to approval. No Option, Right or Performance Unit may be exercised prior to such shareholder approval, and any Restricted Stock or Incentive Shares awarded will be forfeited if such shareholder approval is not obtained.

17. Term of the Plan

Unless sooner terminated by the Board pursuant to Article 14, the Plan will terminate on the date ten years after its adoption by the Board, and no Options, Rights, Performance Units, Restricted Stock or Incentive Shares may be granted or awarded after termination. The termination will not affect the validity of any Option, Right, Performance Unit, Restricted Stock or Incentive Shares outstanding on the date of termination.

18. Indemnification of Committee

In addition to such other rights of indemnification as they may have as Directors or as members of the Committee, the members of the Committee will be indemnified by the Company against the reasonable expenses, including attorneys' fees, actually and reasonably incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Option, Right, Performance Unit, Restricted Stock or Incentive Shares granted or awarded hereunder, and against all amounts reasonably paid by them in settlement thereof or paid by them in satisfaction of a judgment in any such action, suit or proceeding, if such members acted in good faith and in a manner that they believed to be in, and not opposed to, the best interests of the Company.

19. General Provisions

19.1 The establishment of the Plan will not confer upon any Employee or Director any legal or equitable right against the Company, any Subsidiary or the Committee, except as expressly provided in the Plan.

19.2 The Plan does not constitute inducement or consideration for the employment of any Employee or the service of any Director, nor is it a contract of employment between the Company or any Subsidiary and any Employee or Director. Participation in the Plan, or the receipt of a grant or award hereunder, will not give an Employee or Director any right to be retained in the service of the Company or any Subsidiary.

19.3 The Company and its Subsidiaries may assume options, warrants, or rights to purchase stock issued or granted by other corporations whose stock or assets are acquired by the Company or its Subsidiaries, or that is merged into or consolidated with the Company. Assumed options will not be counted toward the limit specified in Section 6.3 unless the Committee determines that application of the limit is necessary for the grants of Options to qualify as performance-based compensation under Section 162(m) of the Code. Neither the adoption of this Plan, nor its submission to the shareholders, may be taken to impose any limitations on the powers of the Company or its affiliates to issue, grant, or assume options, warrants, rights, or restricted stock, otherwise than under this Plan, or to adopt other long-term incentive plans or to impose any requirement of shareholder approval upon the same.

19.4 The interests of any Employee or Director under the Plan are not subject to the claims of creditors and may not, in any way, be assigned, alienated or encumbered except as provided in Article 10.

19.5 The Plan will be governed, construed and administered in accordance with the laws of Ohio.

2004 Annual Report

FINANCIAL REPORT 2004

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of The Kroger Co. has the responsibility for preparing the accompanying financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis and are not misstated due to material error or fraud. As discussed in Note 19 to the Consolidated Financial Statements, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*, as of February 2, 2003. As discussed in Notes 1 and 5 to the Consolidated Financial Statements, the Company also adopted the provisions of Emerging Issues Task Force Issue No. 02-16, *Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor*, as of January 1, 2003. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the report and is responsible for its accuracy and consistency with the financial statements.

The Company's financial statements have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, whose selection has been approved by the shareholders. Management has made available to PricewaterhouseCoopers LLP all of the Company's financial records and related data, as well as the minutes of the shareholders' and directors' meetings. Furthermore, management believes that all representations made to PricewaterhouseCoopers LLP during its audit were valid and appropriate.

Management also recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in The Kroger Co. Policy on Business Ethics, which is publicized throughout the Company and available on the Company's website at www.kroger.com. The Kroger Co. Policy on Business Ethics addresses, among other things, the necessity of ensuring open communication within the Company; potential conflicts of interests; compliance with all domestic and foreign laws, including those related to financial disclosure; and the confidentiality of proprietary information. The Company maintains a systematic program to assess compliance with these policies.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of The Kroger Co. is responsible for establishing and maintaining adequate control over financial reporting for the Company. With the participation of the Chairman and Chief Executive Officer and the Chief Financial Officer, management conducted an evaluation of the effectiveness of the internal control over financial reporting based on the framework and criteria established in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that the Company's internal control over financial reporting was not effective as of January 29, 2005, due to the material weakness described below.

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A material weakness is a control deficiency, or combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. As of January 29, 2005, we did not maintain effective controls over the determination of deferred income tax balances related to a business combination. Specifically, controls over the processes and procedures in calculating deferred income tax liabilities related to a business combination were not effective to ensure that the deferred income tax liabilities and allocated goodwill were fairly stated in accordance with generally accepted accounting principles. This deficiency resulted in a year-end audit adjustment affecting deferred income tax liabilities, goodwill and the goodwill impairment charge. Therefore, management concluded that this control deficiency constitutes a material weakness.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of January 29, 2005 has been audited by PricewaterhouseCoopers LLP, as stated in their report (which expressed an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of the Company's internal control over financial reporting as of January 29, 2005), which is included on page A-31 in this Annual Report.

David B. Dillon

*Chairman of the Board and
Chief Executive Officer*

J. Michael Schlotman

*Senior Vice President and
Chief Financial Officer*

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SELECTED FINANCIAL DATA

	Fiscal Years Ended				
	January 29, 2005	January 31, 2004	February 1, 2003	February 2, 2002	February 3, 2001
	(52 weeks)	(52 weeks)	(52 weeks)	(52 weeks)	(53 weeks)
	(In millions, except per share amounts)				
Sales	\$ 56,434	\$ 53,791	\$ 51,760	\$ 50,098	\$ 49,000
Earnings (loss) before cumulative effect of accounting change	(100)	312	1,218	1,040	874
Cumulative effect of accounting change (A)			(16)		
Net earnings (loss)	(100)	312	1,202	1,040	874
Diluted earnings (loss) per share:					
Earnings (loss) before cumulative effect of accounting change	(0.14)	0.41	1.54	1.26	1.03
Cumulative effect of accounting change (A)			(.02)		
Net earnings (loss)	(0.14)	0.41	1.52	1.26	1.03
Total assets	20,491	20,763	20,318	19,069	18,472
Long-term obligations, including obligations under capital leases	10,635	10,613	10,667	10,103	9,727
Shareowners' equity	3,540	3,985	3,827	3,482	3,072
Cash dividends per common share (B)					

(A) Amounts are net of tax. Refer to Note 5 of the Consolidated Financial Statements.

(B) During the fiscal years ended February 2, 2002, and prior, the Company was prohibited from paying cash dividends under the terms of its previous Credit Agreement. On May 22, 2002, the Company entered into a new Credit Agreement, at which time the restriction on payment of cash dividends was eliminated. However, no cash dividends were declared or paid in any of the periods presented.

COMMON STOCK PRICE RANGE

Quarter	2004		2003	
	High	Low	High	Low
1st	\$ 19.67	\$ 15.95	\$ 15.52	\$ 12.05
2nd	\$ 18.36	\$ 14.70	\$ 18.41	\$ 15.14
3rd	\$ 17.31	\$ 14.65	\$ 19.70	\$ 17.00
4th	\$ 17.75	\$ 15.53	\$ 19.03	\$ 16.80

Main trading market: New York Stock Exchange (Symbol KR)

Number of shareholders of record at year-end 2004: 49,817

Number of shareholders of record at April 8, 2005: 49,517

Determined by number of shareholders of record

The Company has not paid dividends on its Common Stock for the past three fiscal years.

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On January 17, 2005, the Company issued 21,761 shares of Common Stock to Robert I. Bernstein (the Warrant Holder). The shares were issued to the Warrant Holder upon conversion of warrants issued pursuant to a Warrant Agreement dated May 23, 1996. The original warrants were issued in a private placement transaction not involving a public offering pursuant to Section 4(2) of the Securities Act of 1933, as amended. The conversion of the warrants into common stock was an exempt exchange under Section 3(a)(9) of the Securities Act. The Company received no proceeds from the issuance of the common stock.

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EQUITY COMPENSATION PLAN INFORMATION

The following table provides information regarding shares outstanding and available for issuance under the Company's existing stock option plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	65,649,738(1)	\$ 17.8049	8,072,418
Equity compensation plans not approved by security holders	1,200	\$ 6.4850	
Total	65,650,938(1)	\$ 17.8047	8,072,418

The securities to be issued under stock plans not approved by shareholders related to options issued under the Company's 1987 Stock Option plan and 1988 Stock Option Plan. These plans provided for the issuance of nonqualified stock options and restricted stock to employees of the Company. Both plans expired 10 years after adoption. Although outstanding options continue to be exercisable in accordance with their terms, no additional options may be issued from these plans.

- (1) This amount includes 4,163,863 warrants outstanding and originally issued to The Yucaipa Companies pursuant to a Warrant Agreement dated as of May 23, 1996, between Smith's Food & Drug Centers, Inc. and The Yucaipa Companies, as Consultant.

ISSUER PURCHASES OF EQUITY SECURITIES

<u>Period</u>	<u>Total Number of Shares Repurchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)</u>	<u>Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2) (in millions)</u>
First Quarter (16 weeks) February 1, 2004 to May 22, 2004	8,980,970	\$ 16.62	8,980,970	\$ 39
Second Quarter (12 weeks) May 23, 2004 to August 14, 2004	1,212,269	\$ 16.73	1,075,000	\$ 21
Third Quarter (12 weeks) August 15, 2004 to November 6, 2004	5,443,571	\$ 15.18	5,442,600	\$ 422
Fourth Quarter (12 weeks) November 7, 2004 to January 29, 2005	4,338,895	\$ 16.50	4,186,400	\$ 353
Total	19,975,705	\$ 16.21	19,684,970	\$ 353

- (1) Shares were repurchased under (i) a \$500 million stock repurchase program authorized by the Board of directors on December 10, 2002, which was replaced by a \$500 million stock repurchase program, authorized by the Board of Directors on September 16, 2004, and (ii) a program authorized in December 1999 to repurchase common stock to reduce dilution resulting from our employee stock option plans, a program that is limited based on proceeds received from exercises of stock options and the tax benefits associated therewith. The programs have no expiration date but may be terminated by the Board of Directors at any time. No shares were purchased other than through publicly announced programs during the periods shown.
- (2) Amounts shown in this column reflect amounts remaining under the \$500 million stock repurchase programs referenced in Note 1 above. Amounts to be invested under the program utilizing option exercise proceeds are dependent upon option exercise activity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OUR BUSINESS

The Kroger Co. was founded in 1883 and incorporated in 1902. It is one of the nation's largest retailers, operating 2,532 stores under two dozen banners including Kroger, Ralphs, Fred Meyer, Food 4 Less, King Soopers, Smith's, Fry's, Fry's Marketplace, Dillons, QFC and City Market. The Company also operates 795 convenience stores, 436 fine jewelry stores, and 536 supermarket fuel centers.

Kroger operates 42 manufacturing plants, primarily bakeries and dairies, which supply about two-thirds of the private label grocery products sold in the Company's retail outlets.

Our revenues are earned and cash is generated as consumer products are sold to customers in our stores. We earn income predominantly by selling products at price levels that produce revenues in excess of our costs to make these products available to our customers. Such costs include procurement and distribution costs, facility occupancy and operational costs, and overhead expenses. The Company's operations are reported as a single operating segment: the retail sale of merchandise to individual customers.

OUR 2004 PERFORMANCE

The operating environment of the food retailing industry continues to be characterized by intense price competition, aggressive supercenter expansion, increasing fragmentation of retail formats, and market consolidation. Over the past several years, many traditional supermarket operators, including Kroger, have experienced declining profit margins. In an effort to maintain market share, we have lowered retail prices at a rate faster than we were able to reduce costs.

Kroger recognized the major changes in the operating environment and in 2001 we implemented a plan to transition to a lower gross margin environment. During 2002 and 2003 our identical food store sales without fuel declined. In 2004 we were pleased with the progress of our identical sales, excluding the effect of fuel and the southern California labor dispute, which has now shown sequential improvement for seven of the past eight quarters. Identical food store sales on this same basis increased 1.2% in 2004. This nearly met the 1.3% target we established at the beginning of the year. This was accomplished by focusing on our customers' needs of high-quality perishable products and lowering selected prices.

Our internal analysis shows that we hold the #1 or #2 position in 40 of our 52 major markets. We define a major market as one in which we operate nine or more stores. According to our internal market share estimates, which include all retail outlets including supercenters and other non-traditional retail formats, Kroger's market share increased in 23 of our 52 major markets in 2004, declined in 27 and remained unchanged in two. Six of the 27 markets in which our market share declined are in California, including five markets that were significantly affected by the southern California labor dispute. On a volume-weighted basis, Kroger's overall market share declined slightly in our 52 major markets.

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Our 2003 and 2004 financial results were affected by asset and goodwill impairment charges and two labor disputes that occurred in southern California and West Virginia. In West Virginia, we closed 44 stores starting October 13, 2003 when a strike was conducted by a local union of the United Food and Commercial Workers International Union (UFCW). These stores were reopened on December 11, 2003 after ratification of a new contract. In southern California, our Ralphs stores, as well as stores operated by Safeway, Inc. and Albertson's, Inc.

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were subject to a labor dispute that started on October 12, 2003 and ended 141 days later on February 29, 2004. We are working hard to rebuild our business in this region. The recovery from the labor dispute has been slower than we expected. We continue to emphasize store conditions, associate training, associate engagement and competitive pricing. We are making progress and have a plan in place to return sales to pre-strike levels.

Excluding the impairment charges and the effect of the strikes, our net earnings still declined in 2004. Our increased sales did not translate to increased bottom line earnings. The competitive environment's pressure on retail prices combined with increased inflation in product costs and increasingly price-conscious consumers have resulted in lower gross profit. Additionally, increases in operating and administrative costs, especially employee health care costs and pension costs have been increasing at a higher rate than sales.

FUTURE EXPECTATIONS

We believe that Kroger is now positioned, despite intense price competition, to increase total sales, identical store sales, and earnings. Kroger's plan starts with the customer. We are listening to our customers through research and focus groups. Our plan centers around those areas that our customers have told us are important. Our focus is on differentiating our stores, being competitive on price, and providing our customers a superior shopping experience as compared to our competitors, in terms of service, product quality, and variety.

The plan should allow us to build a stronger relationship with our customers, position Kroger as the retailer of choice, and generate a satisfactory return for our shareholders. Significant, sustainable cost reductions will enable us to achieve our plan. Costs savings will be derived from areas such as process improvements, restructured labor contracts that will allow us to remain competitive, lower product costs, and technology utilization.

Kroger's financial strength is an important competitive advantage. Our free cash flow permits us to upgrade and expand our asset base in order to offer customers clean, modern stores that enhance their shopping experience. Our cash flow also enables us to continue reducing debt and buy back stock.

In addition to financial strength, Kroger has many other key strengths such as a high quality asset base with leading market shares, broad geographic diversity, multiple retail formats, customer loyalty data and data analysis capability, a successful track record against supercenter competition and industry leading corporate brands.

Kroger is focused on consistently meeting the needs of our customers by providing improved service, selection and value. Our associates are key to Kroger's success. We expect the successful execution of our strategy will be clearly evident in our 2005 financial results.

Further discussion on our industry, the current economic environment and our related strategic plans is included in Outlook.

RESULTS OF OPERATIONS

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The following discussion summarizes our operating results for 2004 compared to 2003 and for 2003 compared to 2002. Comparability is affected by certain income and expense items that fluctuated significantly between and among the periods, including goodwill and asset impairment charges and labor disputes in West Virginia and southern California. These items are identified and discussed in more detail below in **Other Items** and **Estimated Effect of Labor Disputes**.

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Certain amounts set forth below have been revised from those contained in the preliminary financial statements reported in Kroger's earnings release filed on a Form 8-K dated March 8, 2005. The changes related to the correction of the amount recorded for deferred income taxes related to the Ralphs business combination. The correction resulted in a change to the goodwill impairment charge related to the Ralphs and Food 4 less operations in southern California.

Net Earnings (Loss)

We recorded a net loss totaling \$100 million, or \$0.14 per share, for 2004, compared to net earnings totaling \$312 million, or \$0.41 per diluted share, in 2003 and net earnings of \$1,202 million, or \$1.52 per diluted share, in 2002. The decrease in net earnings in 2004 and 2003 was significantly affected by labor disputes as well as goodwill and asset impairment charges. These items are more fully described below in Other Items and Estimated Effect Of Labor Disputes. Lower gross margins, a result of our investment in pricing due to the competitive operating environment, also affect our year-to-year net earnings results.

Sales

Total Sales

(in millions)

	2004	Percentage Increase	2003	Percentage Increase	2002
Total food store sales without fuel	\$ 51,106.2	2.9%	\$ 49,650.0	2.8%	\$ 48,295.1
Total food store fuel sales	2,305.2	59.0%	1,449.9	60.7%	902.5
Total food store sales	\$ 53,411.4	4.5%	\$ 51,099.9	3.9%	\$ 49,197.6
Other sales	3,023.0	12.3%	2,690.9	5.0%	2,561.9
Total Sales	\$ 56,434.4	4.9%	\$ 53,790.8	3.9%	\$ 51,759.5

The change in our total sales is driven by identical store sales and square footage growth, as well as inflation in fuel and other commodities.

We define a food store as an identical store when the store has been in operation without expansion or relocation for five full quarters. We calculate annualized identical food store sales based on a summation of four quarters of identical sales. Our annualized identical food store sales results are summarized below.

Identical Food Store Sales

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(in millions)

<u>Dollars</u>	Excluding Stores Affected By			
	Labor Disputes (1):			
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Including supermarket fuel centers	\$ 50,135.0	\$ 49,110.1	\$ 43,462.4	\$ 42,338.3
Excluding supermarket fuel centers	\$ 48,068.0	\$ 47,699.6	\$ 41,427.9	\$ 40,921.3
Percentage Increase				
Including supermarket fuel centers	2.1%	0.4%	2.7%	0.7%
Excluding supermarket fuel centers	0.8%	(0.4)%	1.2%	(0.2)%

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We define a food store as a comparable store when the store has been in operation for five full quarters, including expansions and relocations. We calculate annualized comparable food store sales based on a summation of four quarters of comparable sales. Our annualized comparable food store sales results are summarized in the table below.

Comparable Food Store Sales

(in millions)

Dollars	Excluding Stores Affected By			
			Labor Disputes (1):	
	2004	2003	2004	2003
Including supermarket fuel centers	\$ 51,581.9	\$ 50,273.1	\$ 44,796.4	\$ 43,427.9
Excluding supermarket fuel centers	\$ 49,440.4	\$ 48,814.5	\$ 42,687.3	\$ 41,992.8
Percentage Increase				
Including supermarket fuel centers	2.6%	1.0%	3.2%	1.3%
Excluding supermarket fuel centers	1.3%	0.1%	1.7%	0.3%

- (1) Sales figures adjusted for the effects of the labor disputes exclude stores involved in labor disputes, as well as Food 4 Less stores whose sales results were favorably affected by the labor disputes in the southern California region.

Our sales in 2004 were also affected by inflation and deflation in various commodity groups, our competitive operating environment, the recovery from the labor disputes in West Virginia and southern California and the results of our strategic initiatives.

FIFO Gross Margin

We calculate First-In, First-Out (FIFO) Gross Margin as follows: Sales minus merchandise costs plus Last-In, First-Out (LIFO) charge (credit). Merchandise costs include advertising, warehousing and transportation, but exclude depreciation expense and rent expense. FIFO gross margin is an important measure used by our management to evaluate merchandising and operational effectiveness. Our FIFO gross margin rates were 25.41%, 26.38% and 26.85% in 2004, 2003 and 2002, respectively. These declining rates reflect our continued investment in lower retail prices. Higher fuel sales that carry a low gross profit rate reduced our FIFO gross margin rates by 135, 93 and 69 basis points in 2004, 2003 and 2002, respectively. The southern California labor dispute and our related recovery efforts reduced gross profit rates in both 2004 and 2003. Additionally, other items recorded as merchandise costs in 2004, 2003 and 2002 further affected our FIFO gross margin rates. These items are more fully described below in Other Items and Estimated Effect of Labor Disputes.

Operating, General and Administrative Expenses

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Operating, general and administrative (OG&A) expenses, which consist primarily of employee-related costs such as wages, health care benefit costs and retirement plan costs, as a percent of sales were 18.80%, 19.25% and 18.58% in 2004, 2003 and 2002, respectively. Higher fuel sales reduced our OG&A rate by 105, 73 and 48 basis points in 2004, 2003 and 2002, respectively. The labor disputes and several items that are more fully described in Other Items and Estimated Effect of Labor Disputes affected our OG&A rates in 2004 and 2003.

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We continue to emphasize cost containment efforts in all areas and especially in the wage and benefit areas. In the fourth quarter of 2004, health care costs declined slightly as a percent of sales, the result of progress we have made during labor negotiations. We expect additional improvement in our OG&A rate in 2005, particularly as we leverage increasing sales and cost reductions in key areas of our business.

Rent Expense

Rent expense, as a percent of sales, was 1.21%, 1.22% and 1.27% in 2004, 2003 and 2002, respectively. The decreases in these rates reflect our continued emphasis on ownership of real estate, partially offset by increased charges for the net present value of lease liabilities recorded for store closings.

Depreciation Expense

Depreciation expense, as a percent of sales, was 2.22%, 2.25% and 2.10% for 2004, 2003 and 2002, respectively. The change in these rates reflects our continued emphasis on ownership of real estate, offset by tightening of capital expenditures and the leveraging effect of increased sales.

Interest Expense

Net interest expense totaled \$557 million, \$604 million and \$619 million for 2004, 2003 and 2002, respectively. The decrease in interest expense is the result of lower average borrowings and lower average rates on outstanding debt. Interest expense in 2004, 2003 and 2002 included \$25 million, \$18 million and \$19 million, respectively, related to the early retirement of debt, more fully described in Other Items.

Income Taxes

Our effective income tax rate was 134.5%, 59.3% and 37.5% for 2004, 2003 and 2002, respectively. The effective tax rates for 2004 and 2003 differ from the effective tax rate for 2002 due to the impairment of non-deductible goodwill in 2004 and 2003. The effective income tax rates also differ from the expected statutory rate in all years presented due to the effect of state taxes.

OTHER ITEMS

The following table summarizes items that affected Kroger's financial results during the periods presented. These items should not be considered alternatives to net earnings, net cash provided by operating activities or any other Generally Accepted Accounting Principles (GAAP) measure of performance or liquidity. These items should not be viewed in isolation or considered substitutes for Kroger's results as reported in accordance with GAAP.

These items include goodwill impairment charges, asset impairment charges, restructuring charges, merger-related costs and the cumulative effect of an accounting change, all of which are shown separately in the Consolidated Statements of Operations. The items also include charges and credits that were recorded as components of FIFO gross margin, LIFO charge (credit), OG&A expense and interest expense.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In millions except per share amounts)		
Items affecting FIFO gross margin (1)			
Item-cost conversion	\$	\$	\$ 91
Adoption of EITF Issue No. 02-16			28
	<u> </u>	<u> </u>	<u> </u>
Total affecting FIFO gross margin			119
Adoption of EITF Issue No. 02-16 LIFO effect			(28)
Items affecting OG&A			
Lease liabilities store closing plans		(10)	
Excess energy purchase commitments		4	(19)
Settlement of energy contract dispute		62	
Property tax allowance adjustment		(20)	
Power outage		9	
Charitable contribution		(5)	
	<u> </u>	<u> </u>	<u> </u>
Total affecting OG&A		40	(19)
Items affecting interest expense	3	18	19
Goodwill impairment charge	900	444	
Asset impairment charges		120	
Restructuring charges			15
Merger-related costs			1
	<u> </u>	<u> </u>	<u> </u>
Total pre-tax effect	903	622	107
Income tax benefit (2)	(44)	(66)	(40)
	<u> </u>	<u> </u>	<u> </u>
After-tax effect	859	556	67
Cumulative effect of accounting change, net of tax (3)			16
	<u> </u>	<u> </u>	<u> </u>
Total after-tax expense	\$ 859	\$ 556	\$ 83
	<u> </u>	<u> </u>	<u> </u>
Shares used in earnings per share calculation	736	754	791
Approximate per share effect	\$ 1.17	\$ 0.74	\$ 0.11

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- (1) FIFO gross margin is defined above in Results of Operations.
- (2) Income tax benefits in 2004 and 2003 are affected by the non-deductibility of the majority of the goodwill impairment charges.
- (3) The transitional impairment review required by the adoption of SFAS No. 142, Goodwill and Other Intangible Assets resulted in a write off of our jewelry store division goodwill.

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Items Affecting FIFO Gross Margin, LIFO Charge (Credit) and Operating, General and Administrative Expense

Item-cost conversion

In 1998, prior to the merger with Fred Meyer, we changed our application of the LIFO method of accounting for certain store inventories from the retail method to the item-cost method. The change improved the accuracy of product cost calculations by eliminating the averaging and estimating inherent in the retail method.

During 2002, we adopted the item-cost method for the former Fred Meyer divisions. The cumulative effect of this change on periods prior to February 3, 2002, cannot be determined. The effect of the change on the February 3, 2002 inventory valuations, which includes other immaterial modifications in inventory valuation methods, was included in results for the quarter ended May 25, 2002. This change increased merchandise costs by \$91 million and reduced net earnings by \$57 million. We did not calculate the pro forma effect on prior periods because we were unable to determine cost information for these periods. The item-cost method did not have a material effect on earnings subsequent to adoption on February 3, 2002.

Adoption of Emerging Issues Task Force (EITF) Issue No. 02-16

We adopted EITF Issue No. 02-16 during 2002. This issue addresses the method by which retailers account for vendor allowances. Due to system constraints and the nature of certain allowances, it is sometimes not practicable to apply allowances to the item cost of inventory. Historically, we had recognized those allowances as they were earned, based on the fulfillment of the related obligations of the contract. This accounting treatment was consistent with GAAP. For all contracts entered into or modified after January 1, 2003, we have recognized prospectively, and will continue to recognize, vendor allowances when the related merchandise is sold, in accordance with Issue 02-16. Net earnings in 2002 were not affected by the adoption of Issue No. 02-16. Adoption of the Issue resulted in a \$28 million pre-tax charge that was included in merchandise costs in 2002. This expense was offset by a corresponding \$28 million pre-tax LIFO credit that also was included in merchandise costs in 2002.

Lease liabilities Store Closing Plans

Due to operational changes, performance improved at five stores, not yet closed, for which store closing liabilities had been recorded as a part of a corporate-level strategic plan. As a result of this improved performance, in 2003 we modified our original plans and determined that these five locations will remain open. Additionally, closing and exit costs at other locations included in the original plans were less costly than anticipated. In total, in 2003, we recorded pre-tax income of \$10 million to adjust these liabilities to reflect the outstanding lease commitments through 2020 at the locations remaining under the plans. Refer to Note 3 to the Consolidated Financial Statements for additional details of these liabilities.

No charges were recorded in 2003 for the present value of lease liabilities for stores considered in the 2003 asset impairment review. In accordance with SFAS No. 146, which is effective for all exit and disposal activities initiated after December 31, 2002, these liabilities will be recorded when these locations are closed. During fiscal 2004, we recorded lease liabilities totaling \$24 million related to the closing of 41 of these stores.

Excess energy purchase commitments

During 2001, we recorded a pre-tax charge of \$81 million to accrue liabilities for the estimated fair value of energy purchase commitments that provided for supplies in excess of our expected demand for electricity. SFAS No. 133 required the excess commitments to be marked to fair value through current-period earnings each quarter. We recorded pre-tax expense of \$4 million and pre-tax income of \$19 million as a result of the market value adjustment of these excess commitments in 2003 and 2002, respectively.

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During 2003, we reached an agreement through which we ended supply arrangements in California with Dynegy, Inc., related to these two contracts and two other electricity contracts that had been previously accounted for as normal purchases normal sales contracts. The Federal Energy Regulatory Commission approved the agreement on July 23, 2003. During 2003, we paid \$107 million, before the related tax benefits, to settle disputes with Dynegy related to prior over-payments, terminate two of the four contracts effective July 6, 2003, and terminate the remaining two agreements effective September 1, 2003. As a result of the settlement, we recorded \$62 million of pre-tax expense in 2003.

Property Tax Allowance

In 2003, we recorded pre-tax income of \$20 million related to the reversal of a property tax accrual after we determined the amount to be paid would be less than we originally estimated.

Power Outage

In 2003, we recorded a \$9 million pre-tax expense for the August power outage in northwest Ohio and Michigan. The majority of the expense related to uninsured product losses. Generally, we classify uninsured product and property losses as OG&A expense.

Adjustment to Charitable Contribution Liability

In 2003, we recorded \$5 million of pre-tax income to adjust previously recorded liabilities related to charitable contributions required as a result of the Fred Meyer merger. We are required to make the remaining \$14 million contribution by May 2006.

Items Affecting Interest Expense

We adopted SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections, in the first quarter of 2003. As a result, expenses related to the early retirement of debt, which were recorded as extraordinary items prior to the issuance of SFAS No. 145, are now classified as interest expense in the respective periods. The 2004 expenses of \$3 million pre-tax, related to a premium paid in connection with the redemption of our \$750 million 7.375% bonds due March 2005, net of the effect of reduced interest expense for the balance of the year. The 2003 expenses of \$18 million, pre-tax, related to premiums paid in connection with the repurchase of \$100 million of long-term bonds, and the write-off of the related deferred financing costs.

Goodwill Impairment Charge

We performed the annual evaluation of goodwill required by SFAS No. 142 during the fourth quarter of 2004. This review resulted in a \$900 million non-cash impairment charge related to goodwill at our Ralphs and Food 4 Less divisions. The impairment charge, most of which is non-deductible for income tax purposes, adjusted the carrying value of the divisions' goodwill to its implied fair value. The divisions' operating

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performance suffered due to the intense competitive environment following the 2003 southern California labor dispute and recovery period. The decreased operating performance was the result of the investments in personnel, training, capital and price reductions necessary to regain Ralphs lost business and to maintain business gained by Food 4 Less stores that were not subject to the labor dispute. As a result of this decline in operating performance, the divisions carrying value of goodwill exceeded its implied fair value resulting in the impairment charge. No impairment for goodwill at our other divisions was indicated during this review.

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During our annual review in 2003, we recorded a \$444 million non-cash goodwill impairment charge related to the goodwill at our Smith's division following a substantial decline in the operating performance of the division compared to 2002 operating performance and expected future performance.

Asset Impairment Charges and Related Items

In accordance with our policy on impairment of long-lived assets, we recorded impairment losses for both assets to be disposed of and assets to be held and used during 2003. These losses, which are reflected in our Consolidated Statements of Operations as Asset impairment charges, totaled \$120 million, pre-tax. The impairment review was conducted as a consequence of a corporate-level strategic plan that coordinated the closing of several locations over a relatively short period of time as a result of deteriorating operating performance. During the fourth quarter of 2003, we authorized closure of several stores throughout the country based on operating results for 2002 and 2003, as well as updated projections for 2004 and beyond. This event triggered an impairment review of stores slated for closure as well as several other under-performing locations in the fourth quarter of 2003. These charges are more fully described in Note 3 to the Consolidated Financial Statements.

Restructuring Charges

On December 11, 2001, we outlined our Strategic Growth Plan (the Plan) to support additional investment in our core business to increase sales and market share. Restructuring charges related to the Plan totaled \$15 million, pre-tax in 2002. The majority of the charge related to severance agreements, distribution center consolidation and conversion costs. No restructuring charges were recorded in 2004 and 2003.

Merger-Related Costs

During 2002, we recorded pre-tax expenses of \$1 million from the issuance of restricted stock and the related market value adjustments. The restrictions on these stock awards lapsed in 2002 based on the achievement of synergy goals established in connection with the Fred Meyer merger. No merger-related costs were recorded during 2004 or 2003. Please refer to Note 2 to our Consolidated Financial Statements for additional details of this charge.

Cumulative Effect of an Accounting Change

We adopted SFAS No. 142 on February 3, 2002. The transitional impairment review required by SFAS No. 142 resulted in a \$26 million pre-tax, non-cash loss to write-off the goodwill at our jewelry store division based on its implied fair value. Impairment primarily resulted from the recent operating performance of the division and a review of the projected cash flows on a discounted basis, rather than an undiscounted basis, as was the standard under SFAS No. 121, prior to the adoption of SFAS No. 142. We recorded this loss as a cumulative effect of an accounting change, net of a \$10 million tax benefit, in the first quarter of 2002.

ESTIMATED EFFECT OF LABOR DISPUTES

The following table summarizes the estimated effect of labor disputes on Kroger's financial results. These items should not be considered alternatives to net earnings, net cash provided by operating activities or any other GAAP measure of performance or liquidity. These items should not be viewed in isolation or considered substitutes for Kroger's results as reported in accordance with GAAP. Due to the nature of these items, as described below, it is important to identify the items and review them in conjunction with Kroger's financial results reported in accordance with GAAP.

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For the dispute-affected regions, we compared actual results to budgeted results from the start of the disputes through the first two quarters of 2004. In establishing budgets for 2004, we took into account trends existing in the market prior to the labor disputes as well as changes in our business plan strategies. Based on those budgets, the estimated effects included the difference between reported sales and sales projections less reported merchandising costs and merchandising cost projections and the difference between reported OG&A and OG&A projections. While we have relied on the accuracy of our budgets, significant amounts of judgment were used to develop those budgets and actual results, had there been no labor disputes, may have differed from those budgets.

Included in the estimated effect of labor disputes were charges and credits that were recorded as components of merchandise costs and OG&A expense. The 2003 calculation includes the effect of both the southern California and West Virginia strikes. The estimated effect includes all costs associated with the work stoppages, including expenses under the mutual strike assistance agreement in southern California entered into with Safeway, Inc. and Albertson's, Inc., and post-strike recovery expenses through the second quarter of 2004. In the third quarter of 2004, we discontinued reporting the estimated strike effect for southern California.

	2004	2003
	(In millions except per share amounts)	
Estimated effect of labor disputes on:		
FIFO gross margin ⁽¹⁾	\$ 133	\$ 177
OG&A	18	216
Total pre-tax loss	\$ 151	\$ 393
Income tax effect	(56)	(148)
Total after-tax loss	\$ 95	\$ 245
Shares	736	754
Estimated loss per share	\$ 0.13	\$ 0.32

⁽¹⁾ FIFO gross margin is defined above in Results of Operations.

Differences affecting FIFO gross margin included incremental warehousing, distribution, advertising and inventory shrinkage expenses incurred during the labor dispute, as well as the investment in FIFO gross margin, through targeted price reductions, and advertising in order to regain our sales during the post-strike recovery period. Differences in OG&A included costs associated with hiring and training replacement workers, costs associated with bringing in employees from other Kroger divisions to work on a temporary basis, expenses under the mutual strike assistance agreement and costs related to hiring and training workers to replace associates who did not return to work after the labor disputes ended.

COMMON STOCK REPURCHASE PROGRAM

In December 1999, we began a program to repurchase common stock to reduce dilution resulting from our employee stock option plans. This program is solely funded by proceeds from stock option exercises, including the tax benefit from these exercises. We repurchased approximately \$28 million, \$24 million and \$65 million under the stock option program in during 2004, 2003 and 2002, respectively. On December 10, 2002, Kroger's Board of Directors (the Board) authorized an additional stock repurchase program totaling \$500 million. We made open market

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purchases totaling \$277 million and \$63 million under this plan in 2003 and 2002. During fiscal 2004, we made open market purchases of approximately \$144 million to complete the program. In September 2004, the Board authorized a new \$500 million stock repurchase program to replace the December 2002 program. As of January 29, 2005, we had made purchases totaling \$147 million under the September 2004 program.

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