

ORCHARD SUPPLY HARDWARE STORES CORP

Form 10-Q

September 11, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JULY 28, 2012**

OR

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

COMMISSION FILE NO. 001-11679

Orchard Supply Hardware Stores Corporation

(Exact name of Registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	95-4214109 (I.R.S. Employer Identification Number)
6450 Via Del Oro San Jose, California (Address of principal executive offices)	95119 (Zip Code)
Registrant's telephone number, including area code: (408) 281-3500	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of August 24, 2012, the registrant had 4,830,147 shares of Class A Common Stock, par value \$0.01 per share, 8,644.06788 shares of Class B Common Stock, par value \$0.01 per share, and 1,194,000 shares of Class C Common Stock, par value \$0.01 per share, outstanding.

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ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

QUARTERLY PERIOD ENDED JULY 28, 2012

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****AS OF JULY 28, 2012, JANUARY 28, 2012, AND JULY 30, 2011****(Unaudited, in thousands)**

	July 28, 2012	January 28, 2012	July 30, 2011
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 33,918	\$ 8,148	\$ 10,596
Restricted cash		556	554
Merchandise inventories	174,442	157,671	162,326
Deferred income taxes	2,094	14,129	17,221
Prepaid expenses and other current assets	18,753	13,228	12,199
Total current assets	229,207	193,732	202,896
PROPERTY AND EQUIPMENT, NET	195,802	210,362	263,588
INTANGIBLE ASSETS	130,920	133,916	141,744
DEFERRED FINANCING COSTS AND OTHER LONG-TERM ASSETS	8,621	8,493	4,803
TOTAL	\$ 564,550	\$ 546,503	\$ 613,031
LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES			
Merchandise payables	\$ 74,463	\$ 54,410	\$ 54,041
Accrued expenses and other liabilities	53,545	44,508	50,139
Current portion of long-term debt and capital lease obligations	15,527	8,269	11,711
Deposits from sale of real property	22,490	21,471	
Total current liabilities	166,025	128,658	115,891
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	211,269	254,152	310,532
LONG TERM DEPOSITS FROM SALE OF REAL PROPERTIES	41,495		
OTHER LONG-TERM LIABILITIES	38,719	29,286	18,029
DEFERRED INCOME TAXES	51,459	48,108	67,490
Total liabilities	508,967	460,204	511,942
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS EQUITY			
Series A preferred stock	16,529	16,529	
Class A common stock	48	48	60
Class B common stock			
Class C common stock	12	12	
Additional paid-in capital	249,483	248,963	262,931
Accumulated losses	(210,489)	(179,253)	(161,902)
Total stockholders equity	55,583	86,299	101,089

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TOTAL	\$ 564,550	\$ 546,503	\$ 613,031
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See notes to consolidated financial statements.

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	13 Weeks Ended		26 Weeks Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
NET SALES	\$ 194,053	\$ 196,437	\$ 349,057	\$ 360,205
COST OF SALES AND EXPENSES:				
Cost of sales (excluding depreciation and amortization)	129,596	130,596	232,521	239,237
Selling and administrative	57,458	46,257	103,318	90,256
Depreciation and amortization	7,532	7,504	15,371	14,667
Gain on sale of real property			(630)	
Total cost of sales and expenses	194,586	184,357	350,580	344,160
OPERATING (LOSS) INCOME	(533)	12,080	(1,523)	16,045
INTEREST EXPENSE, NET	7,763	5,517	14,328	11,071
(LOSS) INCOME BEFORE INCOME TAXES	(8,296)	6,563	(15,851)	4,974
INCOME TAX EXPENSE	18,431	2,672	15,385	2,073
NET (LOSS) INCOME	\$ (26,727)	\$ 3,891	\$ (31,236)	\$ 2,901
(LOSS) INCOME PER COMMON SHARE ATTRIBUTABLE TO STOCKHOLDERS:				
Basic and diluted (loss) income per share	\$ (4.44)	\$ 0.65	\$ (5.19)	\$ 0.48
Basic and diluted weighted average common shares outstanding	6,021	6,010	6,016	6,011
See notes to consolidated financial statements.				

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	26 Weeks Ended	
	July 28, 2012	July 30, 2011
Cash flows from operating activities:		
Net (loss) income	\$ (31,236)	\$ 2,901
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	15,371	14,667
Amortization and write-off of deferred financing costs	2,785	1,150
Loss on sale of real property and impairment of assets	7,625	97
Stock-based compensation	520	210
Deferred income taxes	15,386	(2,790)
Deferred rent	407	(4)
Change in operating assets and liabilities:		
Merchandise inventories	(16,771)	9,724
Prepaid expenses and other current assets	(728)	(946)
Merchandise payables	20,053	(1,284)
Accrued expenses and other liabilities	1,230	(2,406)
Net cash provided by operating activities	14,642	21,319
Cash flows from investing activities:		
Release of restricted cash	556	
Purchases of property and equipment	(6,645)	(6,220)
Proceeds from sale of property and equipment	6,585	162
Deposits from sale of real property	42,214	
Net cash provided by (used in) investing activities	42,710	(6,058)
Cash flows from financing activities:		
Borrowings on Senior Secured Credit Facility	26,500	35,900
Repayments on Senior Secured Credit Facility	(25,500)	(51,900)
Principal payments on Real Estate Term Loan	(27,878)	(250)
Principal payments on Senior Secured Term Loan	(1,951)	(1,000)
Payment for shares repurchased		(54)
Payments of deferred financing costs	(42)	(287)