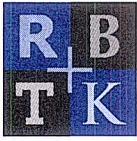


THE PETCO FOUNDATION
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended April 28, 2012

THE PETCO FOUNDATION
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April 28, 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The PETCO Foundation
San Diego, California

We have audited the accompanying statement of financial position of The Petco Foundation (the Foundation), as of April 28, 2012, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of April 28, 2012, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Rosner Brown Touchstone & Keller, LLP

July 23, 2012

THE PETCO FOUNDATION
STATEMENT OF FINANCIAL POSITION
April 28, 2012

ASSETS

| | |
|---------------------------|--------------------------------|
| Cash and cash equivalents | \$ 8,011,074 |
| Contributions receivable | 608,803 |
| Other receivables | <u>146,086</u> |
| Total assets | \$ <u><u>8,765,963</u></u> |

LIABILITIES AND NET ASSETS

| | |
|---------------------------------------|--------------------------------|
| Liabilities: | |
| Accounts payable and accrued expenses | \$ <u>785,318</u> |
| Total liabilities | <u>785,318</u> |
| Net assets: | |
| Unrestricted | <u>7,980,645</u> |
| Total net assets | <u>7,980,645</u> |
| Total liabilities and net assets | \$ <u><u>8,765,963</u></u> |

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Fiscal Year Ended April 28, 2012

Changes in unrestricted net assets:

Support and revenue:

Contributions from fundraising activities:

| | |
|----------------------|----------------|
| Tree of Hope | \$ 4,258,842 |
| Other contributions | 3,708,881 |
| Spring a Pet | 3,050,537 |
| Breeds in Need | 1,226,998 |
| Operation Alteration | 1,106,116 |
| Pet Cancer Awareness | 845,062 |
| Guide Dogs | 816,594 |
| Petco Adoption Fund | 675,149 |
| Managers' Choice | <u>309,804</u> |

| | |
|---|-------------------|
| Total contributions from fundraising activities | <u>15,997,983</u> |
|---|-------------------|

Special events:

| | |
|---------|------------------|
| Revenue | 1,304,380 |
| Expense | <u>(503,924)</u> |

| | |
|----------------------------|----------------|
| Net special events revenue | <u>800,456</u> |
|----------------------------|----------------|

| | |
|-----------------|--------------|
| Interest income | <u>8,624</u> |
|-----------------|--------------|

| | |
|--|-------------------|
| Total unrestricted support and revenue | <u>16,807,063</u> |
|--|-------------------|

Expenditures:

| | |
|--------------------------|----------------|
| Donations | 14,300,650 |
| Administration and other | 976,581 |
| Fundraising | <u>413,468</u> |

| | |
|--------------------|-------------------|
| Total expenditures | <u>15,690,699</u> |
|--------------------|-------------------|

| | |
|-------------------------------------|-----------|
| Increase in unrestricted net assets | 1,116,364 |
|-------------------------------------|-----------|

| | |
|-------------------------------|------------------|
| Net assets, beginning of year | <u>6,864,281</u> |
|-------------------------------|------------------|

| | |
|-------------------------|----------------------------|
| Net assets, end of year | <u><u>\$ 7,980,645</u></u> |
|-------------------------|----------------------------|

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended April 28, 2012

| | |
|--|----------------------------|
| Cash flows from operating activities: | |
| Increase in net assets | \$ 1,116,364 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Decrease in contributions receivable | 9,871 |
| Decrease in other receivables | 378,660 |
| Increase in accounts payable and accrued expenses | <u>56,399</u> |
| Net cash provided by operating activities | <u>1,561,294</u> |
| Net increase in cash and cash equivalents | 1,561,294 |
| Cash and cash equivalents, beginning of year | <u>6,449,780</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 8,011,074</u></u> |

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS
April 28, 2012

1. Organization

The PETCO Foundation (the Foundation), a California non-profit public benefit corporation incorporated on February 16, 1999, is organized to promote, enhance and finance charitable, educational, literary, scientific and prevention of cruelty to animal activities through grants and contributions to organizations that conduct or sponsor charitable or educational programs related to domesticated animals. The Foundation may also conduct and/or sponsor charitable or educational programs, events or activities which further the purpose of the Foundation.

The Foundation is exempt from income tax under Section 501(c)(3) of the United States Internal Revenue Code (the Code), and similar provisions of the California Revenue and Taxation Code, and contributions to it are deductible within the limitations prescribed by the Code. The Foundation has been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the Code.

The Foundation's fiscal year ends on the Saturday closest to April 30, resulting in years of either 52 or 53 weeks. All references to a fiscal year refer to the fiscal year ending on the Saturday closest to April 30 of the following year. The fiscal year ended April 28, 2012 (fiscal year 2011) consisted of 52 weeks.

2. Summary of Significant Accounting Policies

The financial statements of the Foundation have been prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The significant accounting policies followed are discussed below.

Financial Reporting

The Foundation's net assets and its revenues, expenses, gains, and losses are reported based on the existence or absence of donor-imposed restrictions. This accounting method requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted, and unrestricted be displayed in the statement of financial position and that the amounts of changes in each of those classes of net assets be displayed in the statement of activities.

Cash and Cash Equivalents

Cash equivalents represent all liquid investments with original maturities of three months or less and include money market funds.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
April 28, 2012

2. Summary of Significant Accounting Policies, Continued

Contributions

U.S. generally accepted accounting principles require that the Foundation report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Unrestricted contributions are recognized as increases in unrestricted net assets when received. Contributions restricted by donors may be reported as increases in temporarily or permanently restricted net assets, depending on the nature of the donor-imposed restriction. When restrictions are satisfied, either by the passage of time or by accomplishing the purpose, the temporarily restricted contributions are reclassified to unrestricted net assets and reported in the activity statement as net assets released from restrictions. When restrictions are satisfied in the same period as the receipt of contributions, the Foundation reports both the revenue and the related expense in the unrestricted net assets class.

Donated Goods, Services and Facilities

Those donated goods that meet the requirements for recognition under U.S. generally accepted accounting principles are recorded as both revenue and expense in the accompanying statement of activities, at amounts determined by management to be reasonable for obtaining such goods.

Estimates and Assumptions

The preparation of these financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information that is currently available and on other assumptions that are believed to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

Contributions Receivable

Petco Animal Supplies Stores, Inc. (Petco) retail locations serve as collection points for donations received from the general public for various Foundation fundraising activities. These donations are then periodically transferred to the Foundation. Management believes that all contributions receivable are fully collectible within one year; therefore, no allowance for doubtful accounts was recorded as of April 28, 2012.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
April 28, 2012

2. Summary of Significant Accounting Policies, Continued

Income Taxes

The Foundation is exempt from federal and state income tax liability, and therefore, no provision is made for current or deferred income taxes. The Foundation uses the same accounting method for tax and financial reporting.

U.S. generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Foundation in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Foundation's returns for the years ended April 30, 2011, May 1, 2010, and May 2, 2009, are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

Subsequent Events

The Foundation has evaluated subsequent events through July 23, 2012, the date the financial statements were available to be issued. There have been no material subsequent events which would require recognition in the financial statements or disclosure in the notes to the financial statements.

3. Related Party Transactions

Included in contributions and other receivables is \$708,688 due from Petco at April 28, 2012.

Included in accounts payable and accrued expenses is \$117,686 due to Petco at April 28, 2012.

The Foundation reimburses Petco under an agreement for expenses incurred to operate the Foundation out of its office space and for administrative services provided. In addition, the Foundation reimburses Petco for the cost of seven employees who perform duties solely for the Foundation and 75% of the salary of the Executive Director. The cost for all of these expenses for the year ended April 28, 2012 was \$1,533,806 of which \$71,272 is included in accounts payable and accrued expenses at April 28, 2012.

As further described in Note 4, the Foundation received in-kind donations from Petco totaling \$309,804 during the year ended April 28, 2012.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
April 28, 2012

4. In-Kind Donations

The Foundation received other goods and services used in operations which were recorded as contributions and expenses in the accompanying statement of activities at their estimated fair value of \$309,804 for the year ended April 28, 2012.

5. Commitments and Contingencies

The Foundation has entered into the following commitments:

On May 14, 2010, the Foundation entered into a memorandum of understanding with Pets Are Wonderful Support of San Francisco (S.F. PAWS). Under the terms of the agreement, the Foundation is to make five annual gifts of \$50,000, the first of which was paid during fiscal year 2010. These contributions are contingent upon S.F. PAWS fulfilling certain contractual obligations. The agreement expires May 14, 2014, unless terminated earlier by either party.

On May 21, 2010, the Foundation entered into a memorandum of understanding with San Diego Humane Society & SPCA (S.D. Society). Under the terms of the agreement, the Foundation is to make five annual gifts of \$200,000, the first of which was paid during fiscal year 2009. These contributions are contingent upon the S.D. Society fulfilling certain contractual obligations. The agreement expires May 21, 2014, unless terminated earlier by either party.

On June 10, 2010, the Foundation entered into a memorandum of understanding with PAWS Chicago. Under the terms of the agreement, the Foundation was to make one gift of \$75,000 in fiscal year 2010 and two additional gifts of \$130,000 in fiscal years 2011 and 2012. These contributions were contingent upon Chicago PAWS fulfilling certain contractual obligations, not all of which were met as of April 28, 2012. Under the terms of the original agreement the Foundation delayed its second gift of \$130,000 until June of 2012. The Foundation anticipates making the final gift in fiscal year 2013. The agreement expired June 10, 2012.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
April 28, 2012

5. Commitments and Contingencies, Continued

On August 4, 2010, the Foundation entered into a memorandum of understanding with Human-Animal Bond Research Initiative (HABRI). Under the terms of the agreement, the Foundation is to make three gifts which total \$100,000 upon completion of certain contractual milestones. The agreement expires August 4, 2012, unless terminated earlier by either party.

On July 13, 2011, the Foundation entered into a memorandum of understanding with Prince William SPCA (PWSPCA). Under the terms of the agreement, the Foundation is to make one gift of \$136,485 in fiscal year 2011 followed by four annual gifts of \$4,520 beginning in fiscal year 2012. These contributions are contingent upon PWSPCA fulfilling certain contractual obligations. The agreement expires July 1, 2015, unless terminated earlier by either party.

On July 30, 2011, the Foundation entered into a memorandum of understanding with Arizona Animal Welfare League & SPCA (AAWL). Under the terms of the agreement, the Foundation is to make one gift of \$100,000 in fiscal year 2011 followed by three annual gifts of \$50,000 beginning in fiscal year 2012. These contributions are contingent upon the AAWL fulfilling certain contractual obligations. The agreement expires July 1, 2015, unless terminated earlier by either party.

On October 3, 2011, the Foundation entered into a memorandum of understanding with Humane Society of Broward County, Inc. (HSBC). Under the terms of the agreement, the Foundation is to make a minimum of two annual gifts of \$75,000 beginning in fiscal year 2011. These contributions are contingent upon HSBC fulfilling certain contractual obligations. The agreement expires December 31, 2013, unless terminated earlier by either party.

On January 19, 2012, the Foundation entered into a memorandum of understanding with City of San Antonio (the City) on behalf of Animal Care Services. Under the terms of the agreement, the Foundation is to make five annual gifts of \$100,000 beginning in fiscal year 2011. These contributions are contingent upon the City fulfilling certain contractual obligations. The agreement expires January 31, 2022, unless terminated earlier upon written agreement of both parties.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
April 28, 2012

6. Concentration of Risks

Contributions

The majority of the contributions received by the Foundation are collected at Petco retail locations.

Credit Risk

At April 28, 2012, the Company had \$8,011,074 of cash and cash equivalents within one financial institution, a portion of which may be in excess of the federally insured limit. The Foundation has not experienced any such losses and believes it is not exposed to any significant credit risk on these cash deposits.