



## PRESS RELEASE

### ACE HARDWARE REPORTS 2008 FIRST QUARTER FINANCIAL RESULTS

- *Total revenues of \$872.1 million in the first quarter of 2008*
- *Reported net income of \$10.8 million*
- *Adjusted EBITDA of \$31.2 million increased \$2.1 million over 2007*
- *Ace successfully completed new senior debt facilities*

**Oak Brook, Ill. (May 29, 2008)** – Ace Hardware Corporation, the world’s largest retailer-owned hardware cooperative, today reported net income of \$10.8 million for the first quarter of 2008, which was a decrease of \$3.3 million, as compared to the \$14.1 million for the first quarter of 2007. After excluding certain non-recurring and unusual items, the company also reported Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization expenses) of \$31.2 million in the first quarter of 2008 as compared to \$29.2 million in the first quarter of 2007.

#### **Revenues**

Total revenues for the first quarter of 2008 decreased \$67.8 million, or 7.2 percent, to \$872.1 million. Total continuing merchandise sales in the first quarter of 2008 declined 6.4 percent while retail service revenues declined 13.1 percent.

Merchandise sales to comparable domestic stores in the first quarter of 2008 accounted for \$72.9 million of the sales decline. However, merchandise sales to net domestic stores opened in the 2007 and 2008 fiscal year periods contributed \$10.9 million in incremental sales. Ace added 27 new stores and cancelled 41 stores in the first quarter which brought the company’s total store count to 4,616 at the end of the first quarter in 2008 as compared to 4,630 at the end of fiscal year 2007. Despite the decline in store count, Ace experienced incremental sales benefits from new store openings as the new stores that are being opened are more productive from a sales perspective than the stores that are cancelling.

“Our first quarter revenues were challenged by a very difficult environment overall at retail and a delay in the transition to spring weather in many parts of the country,” said Ace President and Chief Executive Officer Ray A. Griffith. “We are hopeful that the current economic stimulus efforts will boost consumer confidence and drive improved selling conditions at retail.”

Merchandise sales from Ace’s international business continued to be strong and contributed \$7.8 million in incremental sales, up 22.4 percent over 2007, driven by increased sales to existing stores in the Middle East, sales to new stores in the Caribbean and sales growth from foreign-to-foreign wholesale operations located in Shanghai, China.

## **Gross Profit**

Ace's gross profit decreased \$15.5 million and gross profit as a percentage of total revenues decreased 88 basis points to 10.62 percent in the first quarter of 2008 from 11.50 percent in the comparable 2007 period. Gross profit decreased \$8.3 million due to the decline in the gross profit percentage and decreased \$7.2 million as a result of the decline in merchandise sales. Approximately \$5.6 million of the overall gross profit decrease was attributable to lower retailer advertising reimbursement revenues resulting from reduced national advertising. In addition, \$1.4 million of the gross profit decline was attributable to the exit of company-owned stores which was completed at the end of the first quarter of 2007.

## **Operating Expenses**

Reported operating expenses declined \$13.3 million, or 14.8 percent, to \$76.8 million in the first quarter of 2008 and, as a percentage of revenues, decreased from 9.6 percent to 8.8 percent. The decrease in reported operating expense was primarily a result of a reduction in incentive compensation and profit sharing expense accruals of approximately \$7.8 million and lower national advertising expenses of \$6.7 million. Additionally, operating expenses declined \$2.7 million due to lower retail pilot store expenses, a \$1.8 million decrease in expenses associated with the exit from company-owned stores and a \$1.6 million decline in expenses associated with the discontinuation of Ace's Vision 21 achievement award program. The declines in reported operating expenses were partially offset by \$5.6 million of incremental expenses in 2008 related to the restatement, remediation and debt restructuring activities associated with the inventory accounting error announced in 2007 and severance expenses of \$1.4 million in the first quarter of 2008. Reported operating expenses in 2007 also include an offset of \$1.2 million from a gain on the sale of a parcel of land in Aurora, Ill., which negatively impacts quarter to quarter comparisons.

"In light of the current economic conditions, we are aggressively taking action to focus on expense controls given the difficult sales trends that we are experiencing," said Griffith. "We are prudently reviewing our cost structure and making the necessary changes that will help us maintain strong profitability without sacrificing our ability to drive continued long-term growth."

## **Adjusted EBITDA**

After excluding certain non-recurring and non-comparable items, Ace's Adjusted EBITDA increased \$2.1 million, or 7.0 percent to \$31.2 million in the first quarter of 2008. Adjustments to EBITDA for the first quarter of 2008 aggregated \$5.3 million, net, and consisted primarily of debt restructuring expenses, restatement related expenses, and inventory accounting remediation expenses. Adjustments to EBITDA for the first quarter of 2007 aggregated \$1.3 million, net, and consisted primarily of adjustments to discretionary profit sharing expenses and Vision 21 achievement award expense, partially offset by the gain on the sale of real estate discussed above.

## **Balance Sheet Trends**

Inventories decreased \$22.5 million, or 4.3 percent, to \$501.4 million at the end of the first quarter of 2008 when compared to the first quarter of 2007 and reflected a reduction in merchandise purchases in reaction to the lower level of first quarter 2008 sales. Inventory turnover at Ace's Retail Support Centers (RSCs) on an annualized basis was 4.75 at the end of the first quarter of 2008, a decrease from 5.09 for the first quarter of 2007. Service levels (fill rates) improved to 96.8 percent in 2008 compared to 96.4 percent for the prior year first quarter.

Ace's net receivables decreased \$16.3 million, or 4.2 percent, to \$374.2 million at the end of the first quarter in 2008 driven by the sales decline in the first quarter of 2008.

Capital expenditures for the first quarter of 2008 decreased \$2.9 million to \$5.8 million primarily due to a decrease in general RSC capital expenditures of \$1.7 million and a decrease in supply chain expenditures of \$1.0 million.

### **Ace Successfully Completed New Senior Debt Facilities**

On May 15, 2008, Ace completed its new senior debt facilities. The new financing includes a \$300 million senior secured revolving credit facility with a group of banks maturing May 15, 2013 that includes \$150 million available for letters of credit. Borrowings under this facility will initially bear interest at a spread of 225 basis points over LIBOR. In addition, Ace issued \$300 million of senior secured notes maturing June 1, 2016 and bearing an interest coupon of 9.125 percent. Interest is payable semi-annually commencing on December 1, 2008.

### About Ace Hardware

Throughout its 84-year history, Ace Hardware has been known as the helpful hardware store by both customers and communities. With 4,600 hardware, home center and building materials stores, Ace Hardware is the largest retailer-owned hardware cooperative in the industry. Headquartered in Oak Brook, Ill., Ace currently operates 14 distribution centers in the U.S. and its retailers' stores are located in all 50 states and 63 countries. More information about Ace can be found at [www.acehardware.com](http://www.acehardware.com).

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**ACE HARDWARE CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Quarterly Period Ended</b>	
	<b>March 29, 2008 (13 Weeks)</b>	<b>March 31, 2007 (13 Weeks)</b>
	<b>(Unaudited, in thousands)</b>	
	<b>(As Restated)</b>	
Revenues	\$ 872,073	\$ 939,856
Cost of Sales	<u>779,461</u>	<u>831,729</u>
Gross Profit	<u>92,612</u>	<u>108,127</u>
Distribution operations expenses	20,971	24,202
Selling, general and administrative expenses	31,163	26,342
Retail success and development expenses	<u>24,626</u>	<u>39,505</u>
Total operating expenses	<u>76,760</u>	<u>90,049</u>
Operating income	15,852	18,078
Interest expense	(7,196)	(7,045)
Interest income	1,684	1,617
Other income, net	1,241	1,191
Income tax (expense) benefit	<u>(823)</u>	<u>266</u>
Net income	<u>\$ 10,758</u>	<u>\$ 14,107</u>
Accrued patronage distributions	<u>\$ 10,187</u>	<u>\$ 12,616</u>

**ACE HARDWARE CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	<b>March 29, 2008</b>	<b>December 29, 2007</b>
	<b>(In thousands, except share data)</b>	<b>(In thousands, except share data)</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 18,167	\$ 84,385
Marketable securities	32,055	29,545
Receivables, net of allowance for doubtful accounts of \$6,937 and \$6,443, respectively	374,193	337,336
Inventories	501,444	472,305
Prepaid expenses and other current assets	45,663	43,685
Total current assets	971,522	967,256
Property and equipment, net	303,038	304,474
Notes receivable, net of allowance for doubtful accounts of \$9,763 and \$9,873, respectively	68,391	69,497
Other assets	54,280	55,112
Total assets	\$ 1,397,231	\$ 1,396,339
<b>Liabilities and Member Retailers' Equity</b>		
Current maturities of long-term debt	\$ 2,195	\$ 18,212
Short-term borrowings	151,292	130,707
Accounts payable	554,392	524,212
Patronage distributions payable in cash	19,691	17,505
Patronage refund certificates payable	19,752	18,776
Accrued expenses	116,774	142,134
Total current liabilities	864,096	851,546
Long-term debt	175,416	171,824
Patronage refund certificates payable	55,250	75,010
Other long-term liabilities	74,239	72,643
Total liabilities	1,169,001	1,171,023
<b>Member Retailers' Equity:</b>		
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 3,131 and 3,106 issued and outstanding, respectively	3,131	3,106
Class B nonvoting common stock, \$1,000 par value, \$2,000 redemption value, 6,500 shares authorized, 6,499 issued, 1,344 and 1,356 outstanding, respectively	6,499	6,499
Class C nonvoting common stock, \$100 par value, 4,000,000 shares authorized, 3,149,247 and 3,142,567 issued and outstanding, respectively	314,925	314,257
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions 92,333 and 81,735, shares issuable, respectively	9,233	8,174
Additional stock subscribed, net	173	155
Contributed capital	13,485	13,485
Variance allocation	(72,316)	(80,560)
Accumulated deficit	(27,139)	(27,710)
Accumulated other comprehensive loss	(4,793)	(1,804)
Treasury stock, at cost, 5,155 and 5,143 Class B shares held, respectively	(14,968)	(10,286)
Total member retailers' equity	228,230	225,316
Total liabilities and member retailers' equity	\$ 1,397,231	\$ 1,396,339

**ACE HARDWARE CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Quarterly Period Ended</b>	
	<b>March 29, 2008</b>	<b>March 31, 2007</b>
	<b>(13 Weeks)</b>	<b>(13 Weeks)</b>
	<b>(Unaudited, in thousands)</b>	
	<b>(As Restated)</b>	
<b>Operating activities</b>		
Net income	\$ 10,758	\$ 14,107
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	7,122	6,981
Amortization of deferred gain on sale leaseback	(319)	(319)
Provision for doubtful accounts	390	1,331
Loss (gain) on disposal of assets, net	107	(1,216)
Deferred income tax expense (benefit)	691	(266)
Change in operating assets and liabilities:		
Receivables	(32,028)	(70,940)
Inventories	(29,139)	(2,085)
Other current assets	(2,668)	(4,188)
Other long-term assets	832	2,500
Accounts payable and accrued expenses	38,232	47,975
Other long-term liabilities	(477)	827
Net cash used in operating activities	(6,499)	(5,293)
<b>Investing activities</b>		
Purchases of marketable securities	(7,756)	(2,555)
Proceeds from sale of marketable securities	4,648	3,512
Purchases of property and equipment	(5,801)	(8,654)
Proceeds from sale of assets	8	4,082
Increase in notes receivable, net	(2,683)	(7,856)
Net cash used in investing activities	(11,584)	(11,471)
<b>Financing activities</b>		
Proceeds from short-term borrowings, net	20,585	60,100
Principal payments on long-term debt	(12,425)	(11,614)
Change in cash overdraft	(33,411)	(7,236)
Payments of patronage refund certificates and patronage financing deductions	(18,913)	(18,335)
Proceeds from sale of stock	711	1,003
Repurchases of stock	(4,682)	(4,769)
Net cash (used in) provided by financing activities	(48,135)	19,149
Increase (decrease) in cash and cash equivalents	(66,218)	2,385
Cash and cash equivalents at beginning of period	84,385	15,813
Cash and cash equivalents at end of period	\$ 18,167	\$ 18,198
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid (net of amount capitalized)	\$ 8,665	\$ 9,215
Income taxes paid	\$ 115	\$ 61

## Non-GAAP Financial Measures

EBITDA and Adjusted EBITDA, as presented in this press release, are supplemental measures of our performance that are not required by, or presented in accordance with, accounting principles generally accepted in the United States (“GAAP”). They are not measurements of our financial performance under GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with GAAP or as alternatives to cash flows from operating activities as measures of our liquidity.

We define “EBITDA” as earnings before interest, taxes, depreciation and amortization. We define “Adjusted EBITDA” as EBITDA adjusted to exclude certain items which we consider non-recurring and which we believe are not indicative of future performance. We caution investors that amounts presented in accordance with our definitions of EBITDA and Adjusted EBITDA may not be comparable to similar measures disclosed by other companies, because not all companies calculate EBITDA or Adjusted EBITDA in the same manner.

We present EBITDA because we consider it an important supplemental measure of our performance and believe it is frequently used in the evaluation of companies in our industry. In addition, the instruments governing our indebtedness use EBITDA (with additional adjustments) to measure our compliance with covenants such as interest coverage and debt incurrence. We present Adjusted EBITDA as a further supplemental measure of our performance. EBITDA and Adjusted EBITDA have several limitations that are discussed in the following EBITDA reconciliation table where we also include a quantitative reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable GAAP financial performance measure, which is net income.

	<u>Quarterly Period Ended</u>	
	<u>March 29, 2008 (13 weeks)</u>	<u>March 31, 2007 (13 weeks)</u>
	<u>(Unaudited, in thousands)</u> (As Restated)	
<b>EBITDA Reconciliation</b>		
Net income	\$ 10,758	\$ 14,107
Income tax expense (benefit)	823	(266)
Interest expense	7,196	7,045
Depreciation and amortization	7,122	6,981
<b>EBITDA</b>	<u>\$ 25,899</u>	<u>\$ 27,867</u>
<b>Adjustments</b>		
Interest income (a)	(1,684)	(1,617)
Debt restructuring and restatement related expenses (b)	3,518	-
Remediation costs (c)	2,074	-
Severance (d)	1,407	-
Real estate gains (e)	-	(1,200)
Vision 21 achievement awards (f)	-	1,581
Reduction of employee incentives (g)	-	2,288
Other Adjustments	-	241
<b>Adjusted EBITDA</b>	<u>\$ 31,214</u>	<u>\$ 29,160</u>

- (a) Non-cash interest income received from patronage loans to member retailers plus cash interest earned by the company's insurance subsidiary.
- (b) Expenses related to the restatement of our 2004, 2005 and 2006 audited financial statements and related waivers, and similar fees paid to our lenders.
- (c) Expenses related to the implementation of our inventory accounting error remediation plan.
- (d) Expenses related to headcount reductions, primarily at our corporate headquarters.
- (e) Gains recognized on the sale of real estate.
- (f) Represents incentives provided to stores achieving Vision 21 brand standards. The financial incentive component of this program terminated at the end of 2007.
- (g) Employee discretionary profit sharing expense accruals reversed later in the year.