



PRESS RELEASE

ACE HARDWARE REPORTS SOLID 2008 FINANCIAL RESULTS DESPITE CHALLENGING ECONOMY

- *Reported net income of \$85.8 million, down 1.3 percent*
- *Reported revenues of \$3.9 billion, down 2.7 percent*
- *Increased adjusted 2008 EBITDA to \$171.8 million, up 11.5 percent*
- *Ranked 5th in “Franchise Times” Top 200 Franchise Systems for the third consecutive year*
- *Jumped to 6th in “Entrepreneur” magazine’s “best franchises” ranking*
- *For the second year in a row, “BusinessWeek” ranked Ace in the top 10 on its list of “Customer Service Champs”*

Oak Brook, Ill. (March 9, 2009) – Ace Hardware Corporation, the largest retailer-owned hardware cooperative in the industry, today reported net income of \$85.8 million for the fiscal year ended January 3, 2009, a decrease of \$1.1 million or 1.3 percent, compared to \$86.9 million for 2007.

After excluding certain non-comparable items, Ace reported adjusted EBITDA (earnings before interest, loss on early extinguishment of debt, taxes, and depreciation and amortization expenses) of \$171.8 million for fiscal 2008, an increase of \$17.7 million or 11.5 percent, compared to \$154.1 million for 2007.

For the fourth quarter of 2008, net income was \$15.3 million, a decrease of \$5.7 million from 2007 and adjusted EBITDA was \$34.6 million, a decrease of \$8.9 million from 2007. Fourth quarter 2008 net income and adjusted EBITDA were lower compared to 2007 primarily due to the timing of employee profit sharing and incentive expense accruals.

“We are pleased with our overall 2008 performance, particularly in a year of enormous economic and housing related challenges,” said Ray Griffith, Ace president and chief executive officer. “We made numerous mid-course adjustments that enabled us to reduce operating expenses, further strengthen our balance sheet and deliver a solid bottom line. The impact of the economy has global implications, but it is during times like these that I further appreciate the business we are in, the positioning of our great brand and the differentiated customer service our local owners deliver, regardless of macro-economic issues.”

Revenues

Total revenues for the fiscal year ended January 3, 2009 were \$3.9 billion, a decrease of \$106.4 million or 2.7 percent from \$4.0 billion in 2007. For the fourth quarter of 2008, total revenues were \$956.1 million, a decrease of 0.2% or \$1.8 million as compared to 2007. Fiscal 2008 consisted of 53 weeks compared with 52 weeks for fiscal 2007. The 53rd week added approximately \$38.6 million in sales to the full year and fourth quarter 2008 reporting periods.

Excluding the impact of the 53rd week in fiscal 2008, merchandise sales to comparable stores for 2008 were down 3.6 percent, while merchandise sales to new domestic stores activated in the 2007 and 2008 fiscal years contributed \$72.1 million in incremental sales in the current year. Ace activated 117 new stores and cancelled 242 stores in fiscal 2008, bringing the total store count to 4,581 at the end of 2008, as compared to 4,706 for the prior year. On a category basis, domestic sales were negatively impacted by declines in the tools, plumbing and paint categories and were partially offset by a sales increase in the lawn and garden category.

Excluding the impact of the 53rd week in fiscal 2008, merchandise sales from Ace's international business continued to be strong and contributed \$18.5 million in incremental sales in 2008, up 10.2 percent over 2007. This increase was driven by higher sales to existing businesses in the Middle East, Canada and the Caribbean.

“Our 2008 sales performance, considering the challenging environment, speaks to the strength of the Ace brand and the positioning of our business model,” Griffith said. “During our 85 years of operation, Ace has successfully weathered competitive pressures and various economic cycles. We also were very pleased to place so high in independent industry rankings – a testament to the entrepreneurial drive of our retailers and their commitment to offering exceptional customer service.” Ace ranked 5th in “Franchise Times” 2008 Top 200 Franchises, which is based on total worldwide sales, and improved to 6th in “Entrepreneur” magazine’s best franchises ranking, which is based on a comprehensive review of the entire system. Ace also ranked in the top 10 in the list of “Customer Service Champs” in “BusinessWeek,” which is based on customer service performance of industry leading brands.

Gross profit

Gross profit for the fiscal year ended January 3, 2009 was \$464.5 million, an increase of \$9.5 million over 2007, and the gross profit percentage was 12.02 percent as compared to 11.46 percent in 2007. The gross profit percentage increase in fiscal 2008 was attributable to higher margins on merchandise sales due to vendor driven price increases, which are a direct result of the escalating costs of raw materials. These increases were partially offset by a higher LIFO charge in 2008, reflecting price increases on inventory purchases.

Operating expenses

Operating expenses decreased \$11.1 million or 3.2 percent, to \$339.9 million in fiscal 2008 and, as a percentage of revenues, decreased to 8.80 percent as compared to 8.84 percent in 2007. The decrease in operating expenses reflects the company's cost control initiatives and was driven by lower retail research and development expenses, the discontinuation of our store achievement award in 2008 and lower retail technology expenses. This decrease was partially offset by higher information technology expenses in 2008.

Interest expense was \$9.3 million higher in fiscal 2008, as compared to 2007, reflecting higher interest rates and debt levels as a result of the debt refinancing completed during the second quarter of 2008. The company recorded a net loss on the early extinguishment of debt of \$9.5 million, which includes a gain of \$2.3 million in the fourth quarter of 2008 related to the repurchase of \$10.0 million of senior secured notes for \$7.3 million plus accrued interest. Total debt, net of cash, was \$216.6 million at January 3, 2009, a decrease of \$19.8 million, compared to \$236.4 million at December 29, 2007.

Balance sheet trends

Inventory decreased \$11.9 million to \$460.4 million at the end of fiscal 2008, as compared to the 2007 year end. Inventory turnover at Ace's retail support centers (RSCs) on a rolling 12 month basis was 5.40 at the end of fiscal 2008, a decrease from 5.74 at the end of 2007. Service levels (fill rates) to Ace retailers improved to 96.8 percent in fiscal 2008 compared to 96.5 percent for the prior year.

Net receivables decreased \$76.4 million or 22.6 percent, to \$260.9 million at the end of fiscal 2008, as compared to 2007, primarily due to incremental cash collections related to the 53rd week in fiscal 2008 coupled with the decrease in sales in 2008.

Capital expenditures for fiscal year ended January 3, 2009 were \$32.5 million, a decrease of \$24.5 million over 2007. The capital expenditures decrease in fiscal 2008 was primarily due to lower RSC expenditures of \$22.7 million along with lower information technology expenditures in the supply chain area.

About Ace Hardware

Throughout its 85-year history, Ace Hardware has been known as the helpful hardware store by both customers and communities. Last year, Ace ranked "Highest in Customer Satisfaction among Home Improvement Stores for the Second Consecutive Year," according to J.D. Power and Associates. With approximately 4,600 hardware, home center and building materials stores that generate annual retail sales of more than \$12 billion, Ace 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 one in Shanghai, China, and its retailers' stores are located in all 50 states and more than 60 countries. For more information on Ace, visit www.acehardware.com.

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ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Years Ended	
	January 3, 2009 (14 Weeks)	December 29, 2007 (13 Weeks)	January 3, 2009 (53 Weeks)	December 29, 2007 (52 Weeks)
	(In thousands)			
Revenues	\$ 956,088	\$ 957,917	\$ 3,864,223	\$ 3,970,644
Cost of sales	839,470	847,746	3,399,691	3,515,574
Gross profit	<u>116,618</u>	<u>110,171</u>	<u>464,532</u>	<u>455,070</u>
Distribution operations expenses	23,669	17,391	91,567	92,803
Selling, general and administrative expenses	40,361	35,285	134,545	120,946
Retail success and development expenses	29,318	30,758	113,786	137,227
Total operating expenses	<u>93,348</u>	<u>83,434</u>	<u>339,898</u>	<u>350,976</u>
Operating income	23,270	26,737	124,634	104,094
Interest expense	(10,632)	(6,890)	(35,352)	(26,068)
Gain (loss) on early extinguishment of debt	2,311	-	(9,546)	-
Interest income	1,455	1,746	6,930	6,907
Other income, net	1,144	1,357	4,334	4,356
Income tax expense	<u>(2,279)</u>	<u>(1,984)</u>	<u>(5,160)</u>	<u>(2,355)</u>
Net income	<u>\$ 15,269</u>	<u>\$ 20,966</u>	<u>\$ 85,840</u>	<u>\$ 86,934</u>
Accrued patronage distributions	<u>\$ 11,548</u>	<u>\$ 20,298</u>	<u>\$ 78,334</u>	<u>\$ 81,192</u>

ACE HARDWARE CORPORATION
CONSOLIDATED BALANCE SHEETS

	January 3, 2009	December 29, 2007
	(In thousands, except share data)	
Assets		
Cash and cash equivalents	\$ 80,326	\$ 84,385
Marketable securities	31,147	29,545
Receivables, net of allowance for doubtful accounts of \$12,382 and \$6,443, respectively	260,933	337,336
Inventories	460,431	472,305
Prepaid expenses and other current assets	25,671	24,560
Total current assets	858,508	948,131
Property and equipment, net	301,693	304,474
Notes receivable, net of allowance for doubtful accounts of \$14,636 and \$9,873, respectively	48,462	69,497
Other assets	62,855	45,062
Total assets	\$ 1,271,518	\$ 1,367,164
Liabilities and Member Retailers' Equity		
Current maturities of long-term debt	\$ 3,358	\$ 18,212
Short-term borrowings	1,100	130,707
Accounts payable	431,880	524,212
Patronage distributions payable in cash	17,216	17,505
Patronage refund certificates payable	19,457	18,776
Accrued expenses	126,694	123,009
Total current liabilities	599,705	832,421
Long-term debt	292,498	171,824
Patronage refund certificates payable	54,654	75,010
Other long-term liabilities	61,522	62,593
Total liabilities	1,008,379	1,141,848
Member Retailers' Equity:		
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,989 and 3,106 issued and outstanding, respectively	2,989	3,106
Class B nonvoting common stock, \$1,000 par value, \$2,000 redemption value, 6,500 shares authorized, 6,499 issued, 1,296 and 1,356 outstanding, respectively	6,499	6,499
Class C nonvoting common stock, \$100 par value, 4,000,000 shares authorized, 2,879,152 and 3,142,567 issued and outstanding, respectively	287,915	314,257
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 142,708 and 81,735, shares issuable, respectively	14,271	8,174
Additional stock subscribed, net	148	155
Contributed capital	13,485	13,485
Variance allocation	(29,210)	(80,560)
Accumulated deficit	(19,716)	(27,710)
Accumulated other comprehensive loss	(2,836)	(1,804)
Treasury stock, at cost, 5,203 and 5,143 Class B shares held, respectively	(10,406)	(10,286)
Total member retailers' equity	263,139	225,316
Total liabilities and member retailers' equity	\$ 1,271,518	\$ 1,367,164

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended	
	January 3, 2009 (53 Weeks)	December 29, 2007 (52 Weeks)
(In thousands)		
Operating activities		
Net income	\$ 85,840	\$ 86,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,567	28,711
Amortization of deferred gain on sale leaseback	(1,302)	(1,277)
Amortization of deferred financing costs	1,735	248
Loss on early extinguishment of debt	9,546	-
Payments for early extinguishment of debt	(6,594)	-
Settlement of interest rate swap	(4,602)	-
Provision for doubtful accounts	13,133	8,726
Gain on curtailment	-	(2,208)
Loss (gain) on disposal of assets, net	706	(1,024)
Deferred income tax expense (benefit)	(2,842)	2,446
Change in operating assets and liabilities:		
Receivables	68,218	(45,514)
Inventories	11,874	45,655
Other current assets	(1,302)	(4,630)
Other long-term assets	(693)	(680)
Accounts payable and accrued expenses	(59,147)	(43,567)
Other long-term liabilities	652	6,035
Net cash provided by operating activities	<u>146,789</u>	<u>79,855</u>
Investing activities		
Purchases of marketable securities	(45,576)	(15,757)
Proceeds from sale of marketable securities	39,083	17,764
Purchases of property and equipment and other	(32,480)	(57,001)
Proceeds from sale of assets	45	8,640
Decrease in notes receivable, net	782	1,872
Net cash used in investing activities	<u>(38,146)</u>	<u>(44,482)</u>
Financing activities		
Proceeds from (payments of) short-term borrowings, net	(129,843)	98,807
Proceeds from long-term debt	299,358	-
Principal payments on long-term debt	(191,276)	(16,838)
Payments of deferred financing costs	(12,762)	-
Change in cash overdraft	(26,533)	33,018
Payments of cash portion of patronage distribution	(17,443)	(42,506)
Payments of patronage refund certificates and patronage financing deductions	(20,291)	(23,927)
Proceeds from sale of stock	1,536	1,197
Repurchases of stock	(15,448)	(16,552)
Net cash provided by (used in) financing activities	<u>(112,702)</u>	<u>33,199</u>
Increase (decrease) in cash and cash equivalents	(4,059)	68,572
Cash and cash equivalents at beginning of period	84,385	15,813
Cash and cash equivalents at end of period	<u>\$ 80,326</u>	<u>\$ 84,385</u>
Supplemental disclosure of cash flow information:		
Interest paid (net of amount capitalized)	<u>\$ 41,919</u>	<u>\$ 26,035</u>
Income taxes paid	<u>\$ 4,046</u>	<u>\$ 322</u>

Non-GAAP Financial Measures

The company defines “EBITDA” as earnings before interest, gain or loss on early extinguishment of debt, taxes, depreciation and amortization. The company defines “adjusted EBITDA” as EBITDA adjusted to exclude certain items which the company considers non-comparable and which the company believes are not indicative of future performance. The company cautions investors that amounts presented in accordance with its definition 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.

EBITDA and adjusted EBITDA, as presented in this earnings release, are supplemental measures of the company’s 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 the company’s 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 the company’s liquidity.

The company presents EBITDA and adjusted EBITDA because the company considers it an important supplemental measure of its performance and believes it is frequently used in the evaluation of companies in its industry. In addition, the instruments governing the company’s indebtedness use EBITDA (with additional adjustments) to measure the company’s compliance with covenants such as interest coverage and debt incurrence. The company also includes a quantitative reconciliation of EBITDA and adjusted EBITDA to the most directly comparable GAAP financial performance measure, which is net income.

	Three Months Ended		Years Ended	
	January 3, 2009 (14 Weeks)	December 29, 2007 (13 Weeks)	January 3, 2009 (53 Weeks)	December 29, 2007 (52 Weeks)
	(Unaudited, in thousands)			
EBITDA Reconciliation:				
Net income	\$ 15,269	\$ 20,966	\$ 85,840	\$ 86,934
Income tax expense	2,279	1,984	5,160	2,355
Interest expense (including gain or loss on early extinguishment of debt in 2008)	8,321	6,890	44,898	26,068
Depreciation and amortization	8,486	7,406	31,567	28,711
EBITDA	\$ 34,355	\$ 37,246	\$ 167,465	\$ 144,068
Adjustments:				
Interest income (a)	(1,455)	(1,746)	(6,930)	(6,907)
Debt restructuring and restatement related expenses (b)	(155)	3,310	4,049	4,879
Remediation expenses (c)	(19)	3,935	3,934	4,831
Severance (d)	2,299	1,853	3,706	2,648
Real estate gains (e)	-	-	-	(1,200)
Vision 21 achievement awards (f)	-	1,392	-	6,548
Other adjustments	(469)	(2,490)	(469)	(814)
Adjusted EBITDA	\$ 34,556	\$ 43,500	\$ 171,755	\$ 154,053

- (a) Non-cash interest income received from patronage loans to member retailers plus cash interest earned by the company’s insurance subsidiary and from interest bearing cash balances.
- (b) Expenses related to the restatement of the company’s 2004, 2005 and 2006 audited financial statements and related waivers, and similar fees paid to the company’s lenders.
- (c) Expenses related to the implementation of the company’s inventory accounting error remediation plan.
- (d) Expenses related to headcount reductions, primarily at the company’s 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.