



PRESS RELEASE

ACE HARDWARE REPORTS NET INCOME INCREASE IN STRONG FIRST QUARTER 2009 PERFORMANCE

- *Increased net income to \$14.4 million, up 34.3 percent*
- *Reported adjusted EBITDA of \$30.9 million as compared to \$31.2 million in 2008*
- *Reported revenues of \$851.2 million, down 2.2 percent*

Oak Brook, Ill. (May 19, 2009) – Ace Hardware Corporation, the largest retailer-owned hardware cooperative in the industry, today reported net income of \$14.4 million for the quarter ended April 4, 2009, an increase of \$3.7 million or 34.3 percent, compared to \$10.8 million for the comparable 2008 quarter.

After excluding certain non-comparable items, Ace reported adjusted EBITDA (earnings before interest, taxes, depreciation and amortization expenses) of \$30.9 million for the first quarter of 2009 as compared to \$31.2 million in the prior year quarter.

“We are pleased with our overall performance in the first quarter of 2009,” said Ray Griffith, Ace president and chief executive officer. While the current state of the economy at retail continues to struggle, we continue to be focused on assisting our retailers to ensure that they have what their customers need every day.”

Revenues

Total revenues for the quarter ended April 4, 2009 were \$851.2 million, a decrease of \$19.3 million or 2.2 percent from \$870.5 million in 2008. Merchandise sales to comparable domestic stores for the first quarter of 2009 were down 0.6 percent. Merchandise sales to new domestic stores activated in 2009 and 2008 contributed \$19.6 million in incremental sales in the quarter. Ace activated 40 new stores and cancelled 63 stores in the first quarter, with a total store count of 4,558 at the end of the quarter. On a category basis, domestic sales were negatively impacted by declines in the tools, electrical and hardware categories. These declines were partially offset by a sales increase in the lawn and garden category.

Merchandise sales from Ace’s international business decreased \$7.3 million in the first quarter of 2009 as compared to the prior year quarter. This decrease was driven by lower sales in the Middle East and Asia regions.

Gross profit

Gross profit for the quarter ended April 4, 2009 was \$99.1 million, an increase of \$8.1 million over 2008, and the gross profit percentage was 11.64 percent as compared to 10.46 percent in 2008. The increase in gross profit percentage in 2009 was primarily attributable to vendor driven pricing, a shift from direct ship sales towards a higher percentage of warehouse sales which carry higher handling charges and a benefit related to certain costs capitalized into inventory. Warehouse sales represented 73.4% of merchandise sales in 2009 compared to 71.5% in 2008, while direct ship sales were 26.6%, down from 28.5%.

Expenses

Operating expenses increased \$2.0 million or 2.7 percent, to \$77.2 million in the first quarter of 2009 and increased to 9.07 percent as a percentage of revenues as compared to 8.63 percent in 2008. The increase in operating expenses was primarily due to the timing of employee benefit expenses, along with an increase in bad debt expense and a reduction of certain costs capitalized into inventory. The increase was partially offset by lower nonrecurring expenses incurred in 2008. Excluding the impact of costs capitalized into inventory, core operating expenses declined 2.4 percent or \$1.8 million in the first quarter of 2009 as compared to 2008 reflecting the company's cost control initiatives.

Balance sheet trends

Inventories increased \$24.7 million to \$526.2 million at the end of the first quarter of 2009 as compared to the first quarter of 2008 and was reflective of an incremental inventory investment in 2009 to support warehouse service levels during the spring selling season. Service levels (fill rates) to Ace retailers were 96.7 percent for the first quarters for both 2009 and 2008. Inventory turnover at Ace's retail support centers on a rolling 12 month basis was 4.37 at the end of the first quarter of 2009, a decrease from 4.75 at the end of the first quarter of 2008.

Net receivables decreased \$17.6 million or 4.7 percent, to \$356.6 million at the end of the first quarter of 2009, as compared to the first quarter of 2008, primarily due to a decline in sales.

Total debt, net of cash, decreased \$60.4 million to \$250.3 million at the end of the first quarter of 2009 as compared to the first quarter of 2008.

Capital expenditures for the quarter ended April 4, 2009 were \$6.1 million, a slight increase over the comparable period in 2008.

About Ace Hardware

Throughout its 85-year history, Ace Hardware has been known as the helpful hardware store by both customers and communities. 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

	Quarterly Period Ended	
	April 4, 2009 (13 Weeks)	March 29, 2008 (13 Weeks)
	(Unaudited, in thousands)	
Revenues	\$ 851,217	\$ 870,476
Cost of sales	752,141	779,461
Gross profit	99,076	91,015
Distribution operations expenses	23,740	19,374
Selling, general and administrative expenses	30,882	31,163
Retail success and development expenses	22,579	24,626
Total operating expenses	77,201	75,163
Operating income	21,875	15,852
Interest expense	(8,989)	(7,196)
Interest income	1,106	1,684
Other income, net	1,035	1,241
Income tax expense	(584)	(823)
Net income	\$ 14,443	\$ 10,758
Accrued patronage distributions	\$ 13,247	\$ 10,187

ACE HARDWARE CORPORATION
CONSOLIDATED BALANCE SHEETS

	April 4, 2009	January 3, 2009
	(In thousands, except share data) (Unaudited)	(Audited)
Assets		
Cash and cash equivalents	\$ 47,385	\$ 80,326
Marketable securities	33,107	31,147
Receivables, net of allowance for doubtful accounts of \$12,909 and \$12,382, respectively	356,578	260,933
Inventories	526,151	460,431
Prepaid expenses and other current assets	25,750	25,671
Total current assets	988,971	858,508
Property and equipment, net	299,897	301,693
Notes receivable, net of allowance for doubtful accounts of \$16,511 and \$14,636, respectively	46,901	48,462
Other assets	63,989	62,855
Total assets	\$ 1,399,758	\$ 1,271,518
Liabilities and Member Retailers' Equity		
Current maturities of long-term debt	\$ 3,827	\$ 3,358
Short-term borrowings	-	1,100
Accounts payable	585,031	431,880
Patronage distributions payable in cash	20,156	17,216
Patronage refund certificates payable	19,316	19,457
Accrued expenses	111,686	126,694
Total current liabilities	740,016	599,705
Long-term debt	293,868	292,498
Patronage refund certificates payable	35,310	54,654
Other long-term liabilities	60,339	61,522
Total liabilities	1,129,533	1,008,379
Member Retailers' Equity:		
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,985 and 2,989 issued and outstanding, respectively	2,985	2,989
Class B nonvoting common stock, \$1,000 par value, \$2,000 redemption value, 6,500 shares authorized, 1,280 and 6,499 issued, 1,280 and 1,296 outstanding, respectively	1,280	6,499
Class C nonvoting common stock, \$100 par value, 4,000,000 shares authorized, 2,832,460 and 2,879,152 issued and outstanding, respectively	283,246	287,915
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 190,027 and 142,708, shares issuable, respectively	19,003	14,271
Additional stock subscribed, net	203	148
Contributed capital	8,266	13,485
Variance allocation	(22,960)	(29,210)
Accumulated deficit	(18,520)	(19,716)
Accumulated other comprehensive loss	(3,278)	(2,836)
Treasury stock, at cost	-	(10,406)
Total member retailers' equity	270,225	263,139
Total liabilities and member retailers' equity	\$ 1,399,758	\$ 1,271,518

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarterly Period Ended	
	April 4, 2009 (13 Weeks)	March 29, 2008 (13 Weeks)
	(Unaudited, in thousands)	
Operating activities		
Net income	\$ 14,443	\$ 10,758
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,019	7,122
Amortization of deferred gain on sale leaseback	(320)	(319)
Amortization of deferred financing costs	681	49
Provision for doubtful accounts	2,821	500
Loss on disposal of assets, net	3	107
Deferred income tax (benefit) expense	(2,242)	691
Change in operating assets and liabilities:		
Receivables	(97,020)	(35,264)
Inventories	(65,720)	(29,139)
Other current assets	1,698	(2,689)
Other long-term assets	(1,435)	832
Accounts payable and accrued expenses	148,206	38,232
Other long-term liabilities	(1,233)	(477)
Net cash provided by (used in) operating activities	<u>7,901</u>	<u>(9,597)</u>
Investing activities		
Purchases of marketable securities	(5,725)	(7,748)
Proceeds from sale of marketable securities	3,283	4,648
Purchases of property and equipment	(6,086)	(5,801)
Increase in notes receivable, net	(250)	(375)
Net cash used in investing activities	<u>(8,778)</u>	<u>(9,276)</u>
Financing activities		
(Payments of) proceeds from short-term borrowings, net	(1,100)	20,557
Principal payments on long-term debt	(689)	(12,256)
Change in cash overdraft	(9,582)	(33,411)
Payments of patronage refund certificates and patronage financing deductions	(19,485)	(18,913)
Proceeds from sale of stock	249	223
Repurchases of stock	(1,457)	(3,545)
Net cash used in financing activities	<u>(32,064)</u>	<u>(47,345)</u>
Decrease in cash and cash equivalents	(32,941)	(66,218)
Cash and cash equivalents at beginning of period	80,326	84,385
Cash and cash equivalents at end of period	<u>\$ 47,385</u>	<u>\$ 18,167</u>
Supplemental disclosure of cash flow information:		
Interest paid (net of amount capitalized)	<u>\$ 4,393</u>	<u>\$ 8,665</u>
Income taxes paid	<u>\$ 3,442</u>	<u>\$ 115</u>

Non-GAAP Financial Measures

The company defines “EBITDA” as earnings before interest, 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.

	Quarterly Period Ended	
	April 4, 2009 (13 Weeks)	March 29, 2008 (13 Weeks)
	(Unaudited, in thousands)	
EBITDA Reconciliation:		
Net income	\$ 14,443	\$ 10,758
Income tax expense	584	823
Interest expense	8,989	7,196
Depreciation and amortization	8,019	7,122
EBITDA	\$ 32,035	\$ 25,899
Adjustments:		
Interest income (a)	(1,106)	(1,684)
Debt restructuring and restatement related expenses (b)	-	3,518
Remediation expenses (c)	-	2,074
Severance (d)	14	1,407
Adjusted EBITDA	\$ 30,943	\$ 31,214

(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.