



PRESS RELEASE

ACE HARDWARE REPORTS SECOND QUARTER 2009 RESULTS

- *Increased second quarter net income to \$42.2 million, up 26.2 percent*
- *Reported adjusted EBITDA for the quarter of \$60.2 million as compared to \$63.5 million in 2008*
- *Reported revenues for the quarter of \$973.1 million, down 8.6 percent*
- *Ranked “Highest in Customer Satisfaction among Home Improvement Stores Three Years in a Row,” according to J.D. Power and Associates*

Oak Brook, Ill. (August 18, 2009) – Ace Hardware Corporation, the largest retailer-owned hardware cooperative in the industry, today reported net income of \$42.2 million for the second quarter of 2009, an increase of \$8.7 million or 26.2 percent, compared to \$33.4 million in the second quarter of 2008. For the six-month period ended July 4, 2009, net income was \$56.6 million, an increase of \$12.4 million or 28.1 percent over 2008.

After excluding certain non-comparable items, Ace reported adjusted EBITDA (earnings before interest, loss on early extinguishment of debt, taxes, depreciation and amortization expenses) of \$60.2 million for the second quarter of 2009 as compared to \$63.5 million in 2008. For the six-month period ended July 4, 2009, adjusted EBITDA was \$91.1 million as compared to \$94.7 million in 2008.

“Our overall performance in the second quarter of 2009 is solid relative to the economic environment, the unusually cool weather, and the current state of consumer spending in general at retail,” said Ray Griffith, Ace president and chief executive officer. “Consumers are taking on more home maintenance projects themselves, they need advice, and we have an undisputed position in the market as the helpful hardware professionals which has and will continue to serve us well.”

Revenues

Total revenues for the second quarter of 2009 were \$973.1 million, a decrease of \$91.8 million or 8.6 percent from \$1.065 billion in 2008. For the six-month period ended July 4, 2009, total revenues were \$1.824 billion, a decrease of \$111.1 million or 5.7 percent from 2008.

Merchandise sales to comparable domestic stores in the second quarter of 2009 decreased \$59.2 million; however, merchandise sales to new domestic stores activated in the 2008 and 2009 fiscal year periods contributed \$18.0 million in incremental sales in the current year second quarter. Ace added 25 new stores and cancelled 53 stores in the second quarter. This brought the company’s total store count to 4,530 at the end of the second quarter in 2009. On a category basis, domestic sales were negatively impacted by declines in almost all categories. These declines were partially offset by a modest sales increase in the lawn and garden category. The largest sales declines were driven by the plumbing, tools and electrical categories.

Merchandise sales from Ace's international business decreased \$10.9 million, or 20.1 percent, in the second quarter of 2009 as compared to the prior year quarter. This decrease was driven by lower sales in the Middle East and Central America regions due to a slow global economy.

Gross profit

Gross profit in the second quarter of 2009 was \$132.5 million, a decrease of \$3.5 million from 2008, and the gross profit percentage was 13.61 percent as compared to 12.77 percent in 2008. The increase in gross profit percentage in 2009 was attributable to a shift from direct ship sales towards a higher percentage of warehouse sales that carry higher handling charges and a benefit related to certain costs capitalized into inventory as compared to the prior year. Warehouse sales represented 80.0 percent of merchandise sales in 2009 compared to 77.7 percent in 2008, while direct ship sales were 20.0 percent, down from 22.3 percent.

Expenses

Operating expenses decreased \$1.5 million, or 1.7 percent, to \$82.6 million in the second quarter of 2009 and increased to 8.49 percent as a percentage of revenues as compared to 7.90 percent in 2008. The decrease in operating expenses was primarily due to lower nonrecurring expenses and tight expense control partially offset by the timing of employee benefit expenses and a reduction of certain costs capitalized into inventory.

Interest expense was \$1.2 million higher in the second quarter of 2009 as compared to 2008, reflecting higher interest rates.

Balance sheet

Inventories decreased \$20.9 million to \$446.9 million at the end of the second quarter of 2009 as compared to the second quarter of 2008. However, service levels (fill rates) to Ace retailers improved to 96.8 percent for the second quarter compared to 96.6 percent for the prior year reflecting Ace's ongoing commitment to support its retailers' needs.

Total debt including patronage refund certificates, net of cash, decreased \$66.4 million to \$169.7 million at the end of the second quarter of 2009 as compared to the second quarter of 2008.

Capital expenditures for the six-month period ended July 4, 2009 were \$20.3 million, an increase of \$6.4 million over the comparable period in 2008 driven primarily by technology spending.

About Ace Hardware

Throughout its 85-year history, Ace Hardware has been known as the helpful hardware store by both customers and communities. In 2009, Ace ranked “Highest in Customer Satisfaction among Home Improvement Stores for the Third Consecutive Year,” according to J.D. Power and Associates. With approximately 4,500 locally owned and operated hardware, home center and building materials stores that generate annual retail sales of approximately \$12 billion, Ace is the largest 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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>July 4, 2009 (13 Weeks)</u>	<u>June 28, 2008 (13 Weeks)</u>	<u>July 4, 2009 (26 Weeks)</u>	<u>June 28, 2008 (26 Weeks)</u>
	(Unaudited, in thousands)			
Revenues	\$ 973,096	\$ 1,064,896	\$ 1,824,313	\$ 1,935,372
Cost of sales	<u>840,624</u>	<u>928,924</u>	<u>1,592,765</u>	<u>1,708,385</u>
Gross profit	<u>132,472</u>	<u>135,972</u>	<u>231,548</u>	<u>226,987</u>
Distribution operations expenses	24,212	22,017	47,952	41,391
Selling, general and administrative expenses	27,846	30,282	58,728	61,445
Retail success and development expenses	<u>30,580</u>	<u>31,802</u>	<u>53,159</u>	<u>56,428</u>
Total operating expenses	<u>82,638</u>	<u>84,101</u>	<u>159,839</u>	<u>159,264</u>
Operating income	49,834	51,871	71,709	67,723
Interest expense	(9,150)	(7,981)	(18,139)	(15,177)
Loss on early extinguishment of debt	—	(11,857)	—	(11,857)
Interest income	1,007	1,465	2,113	3,149
Other income, net	916	1,591	1,951	2,832
Income tax expense	<u>(447)</u>	<u>(1,677)</u>	<u>(1,031)</u>	<u>(2,500)</u>
Net income	<u>\$ 42,160</u>	<u>\$ 33,412</u>	<u>\$ 56,603</u>	<u>\$ 44,170</u>
Accrued patronage distributions	<u>\$ 41,323</u>	<u>\$ 30,453</u>	<u>\$ 54,570</u>	<u>\$ 40,640</u>

ACE HARDWARE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 4, 2009	January 3, 2009
	(In thousands, except share data)	(In thousands, except share data)
	(Unaudited)	(Audited)
Assets		
Cash and cash equivalents	\$ 182,688	\$ 80,326
Marketable securities	34,641	31,147
Receivables, net of allowance for doubtful accounts of \$11,813 and \$12,382, respectively	269,202	260,933
Inventories	446,933	460,431
Prepaid expenses and other current assets	25,203	25,671
Total current assets	958,667	858,508
Property and equipment, net	305,706	301,693
Notes receivable, net of allowance for doubtful accounts of \$15,874 and \$14,636, respectively	46,167	48,462
Other assets	61,503	62,855
Total assets	\$ 1,372,043	\$ 1,271,518
Liabilities and Member Retailers' Equity		
Current maturities of long-term debt	\$ 3,865	\$ 3,358
Short-term borrowings	—	1,100
Accounts payable	551,528	431,880
Patronage distributions payable in cash	12,239	17,216
Patronage refund certificates payable	19,321	19,457
Accrued expenses	102,770	126,694
Total current liabilities	689,723	599,705
Long-term debt	293,927	292,498
Patronage refund certificates payable	35,278	54,654
Other long-term liabilities	58,876	61,522
Total liabilities	1,077,804	1,008,379
Member Retailers' Equity:		
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,977 and 2,989 issued and outstanding, respectively	2,977	2,989
Class B nonvoting common stock, \$1,000 par value, \$2,000 redemption value, 6,500 shares authorized, -- and 6,499 issued, -- and 1,296 outstanding, respectively	—	6,499
Class C nonvoting common stock, \$100 par value, 4,000,000 shares authorized, 2,944,726 and 2,879,152 issued and outstanding, respectively	294,473	287,915
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 213,738 and 142,708, shares issuable, respectively	21,374	14,271
Additional stock subscribed, net	189	148
Contributed capital	6,986	13,485
Variance allocation	(11,824)	(29,210)
Accumulated deficit	(17,683)	(19,716)
Accumulated other comprehensive loss	(2,253)	(2,836)
Treasury stock, at cost	—	(10,406)
Total member retailers' equity	294,239	263,139
Total liabilities and member retailers' equity	\$ 1,372,043	\$ 1,271,518

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	July 4,	June 28,
	2009	2008
	(26 Weeks)	(26 Weeks)
	(Unaudited, in thousands)	
Operating activities		
Net income	\$ 56,603	\$ 44,170
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,268	15,031
Amortization of deferred gain on sale leaseback	(617)	(639)
Amortization of deferred financing costs	1,364	308
Loss on early extinguishment of debt	—	11,857
Payments for early extinguishment of debt	—	(6,594)
Settlement of interest rate swap	—	(4,602)
Provision for doubtful accounts	3,806	1,000
Loss on disposal of assets, net	286	248
Deferred income tax expense	152	2,178
Change in operating assets and liabilities:		
Receivables	(15,360)	(9,469)
Inventories	13,498	4,509
Other current assets	(636)	82
Other long-term assets	1,234	170
Accounts payable and accrued expenses	94,888	113,585
Other long-term liabilities	(2,655)	1,771
Net cash provided by operating activities	168,831	173,605
Investing activities		
Purchases of marketable securities	(9,795)	(12,861)
Proceeds from sale of marketable securities	6,229	8,439
Purchases of property and equipment	(20,296)	(13,898)
Increase in notes receivable, net	(2,120)	(4,204)
Net cash used in investing activities	(25,982)	(22,524)
Financing activities		
Payments of short-term borrowings, net	(1,100)	(130,943)
Proceeds from long-term debt	—	295,800
Principal payments on long-term debt	(1,546)	(184,995)
Payments of deferred financing costs	—	(12,107)
Change in cash book overdraft	675	(20,727)
Payments of cash portion of patronage distribution	(15,598)	(17,443)
Payments of patronage refund certificates and patronage financing deductions	(19,511)	(20,100)
Proceeds from sale of stock	574	699
Repurchases of stock	(3,981)	(4,284)
Net cash used in financing activities	(40,487)	(94,100)
Increase in cash and cash equivalents	102,362	56,981
Cash and cash equivalents at beginning of period	80,326	84,385
Cash and cash equivalents at end of period	\$ 182,688	\$ 141,366
Supplemental disclosure of cash flow information:		
Interest paid (net of amount capitalized)	\$ 19,312	\$ 21,539
Income taxes paid	\$ 8,366	\$ 323

Non-GAAP Financial Measures

The company defines “EBITDA” as earnings before interest, 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		Six Months Ended	
	July 4, 2009 (13 Weeks)	June 28, 2008 (13 Weeks)	July 4, 2009 (26 Weeks)	June 28, 2008 (26 Weeks)
	(Unaudited, in thousands)			
EBITDA Reconciliation:				
Net income	\$ 42,160	\$ 33,412	\$ 56,603	\$ 44,170
Income tax expense	447	1,677	1,031	2,500
Interest expense (including loss on early extinguishment of debt in 2008)	9,150	19,838	18,139	27,034
Depreciation and amortization	8,249	7,909	16,268	15,031
EBITDA	\$ 60,006	\$ 62,836	\$ 92,041	\$ 88,735
Adjustments:				
Interest income (a)	(1,007)	(1,465)	(2,113)	(3,149)
Debt restructuring and restatement related expenses (b)	—	686	—	4,204
Remediation expenses (c)	—	1,413	—	3,487
Severance (d)	550	—	564	1,407
Other adjustments	651	—	651	—
Adjusted EBITDA	\$ 60,200	\$ 63,470	\$ 91,143	\$ 94,684

- (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.