ACE HARDWARE CORPORATION

Quarterly report for the period ended October 3, 2009

ACE HARDWARE CORPORATION
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Independent Accountants' Review Report

The Board of Directors
Ace Hardware Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of Ace Hardware Corporation (the "Company") as of October 3, 2009, and the related condensed consolidated statements of income for the three- and nine month periods ended October 3, 2009 and the condensed consolidated statement of cash flows for the nine month period ended October 3, 2009. These financial statements are the responsibility of the Company's management. The condensed consolidated financial statements of the Company for the three and nine month periods ended September 27, 2008 were reviewed by other accountants whose report dated November 4, 2008 stated that they were not aware of any material modifications that should be made to those statements for them to be in conformity with US generally accepted accounting principles.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information as of October 3, 2009, and for the three and nine month periods then ended for it to be in conformity with US generally accepted accounting principles.

The consolidated balance sheet of Ace Hardware Corporation as of January 3, 2009, and the related consolidated statements of income, member retailers' equity, and cash flows for the year then ended (not presented herein) were audited by other auditors whose report dated March 4, 2009, expressed an unqualified opinion on those statements.

Ernst + Young LLP

November 6, 2009

ACE HARDWARE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	October 3, 2009	January 3, 2009
	(In thousands, except share data) (Unaudited)	(Audited)
Assets		
Cash and cash equivalents	$ 129,497	$ 80,326
Marketable securities	44,202	31,147
Receivables, net of allowance for doubtful accounts of $8,023 and $12,382, respectively	248,649	260,933
Inventories	460,119	460,431
Prepaid expenses and other current assets	17,114	25,671
Total current assets	899,581	858,508
Property and equipment, net	316,273	301,693
Notes receivable, net of allowance for doubtful accounts of $14,014 and $14,636, respectively	44,692	48,462
Other assets	63,599	62,855
Total assets	$1,324,145	$1,271,518
Liabilities and Member Retailers' Equity		
Current maturities of long-term debt	$ 4,421	$ 3,358
Short-term borrowings	—	1,100
Accounts payable	453,004	431,880
Patronage distributions payable in cash	30,046	17,216
Patronage refund certificates payable	19,306	19,457
Accrued expenses	129,121	126,694
Total current liabilities	635,898	599,705
Long-term debt	295,225	292,498
Patronage refund certificates payable	35,278	54,654
Other long-term liabilities	57,526	61,522
Total liabilities	1,023,927	1,008,379
Member Retailers' Equity:		
Class A voting common stock, $1,000 par value, 10,000 shares authorized, 2,973 and 2,989 issued and outstanding, respectively	2,973	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, 2,912,806 and 2,879,152 issued and outstanding, respectively	291,281	287,915
Class C nonvoting common stock, $100 par value, issuable to retailers for patronage distributions, 243,423 and 142,708 shares issuable, respectively	24,342	14,271
Additional stock subscribed, net	218	148
Contributed capital	6,986	13,485
Variance allocation	(7,292)	(29,210)
Accumulated deficit	(16,704)	(19,716)
Accumulated other comprehensive loss	(1,586)	(2,836)
Treasury stock, at cost	—	(10,406)
Total member retailers' equity	300,218	263,139
Total liabilities and member retailers' equity	$1,324,145	$1,271,518

See accompanying notes to the condensed consolidated financial statements.

ACE HARDWARE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
	October 3, 2009 (13 Weeks)	September 27, 2008 (13 Weeks)	October 3, 2009 (39 Weeks)	September 27, 2008 (39 Weeks)
	(Unaudited, in thousands)			
Revenues	$832,574	$967,010	$2,656,887	$2,902,382
Cost of revenues	722,528	846,120	2,315,293	2,554,505
Gross profit	110,046	120,890	341,594	347,877
Distribution operations expenses	24,377	26,507	72,329	67,898
Selling, general and administrative expenses	27,353	32,739	86,081	94,184
Retail success and development expenses	24,490	28,040	77,649	84,468
Total operating expenses	76,220	87,286	236,059	246,550
Operating income	33,826	33,604	105,535	101,327
Interest expense	(8,768)	(9,543)	(26,907)	(24,720)
Loss on early extinguishment of debt	—	—	—	(11,857)
Interest income	1,248	2,326	3,361	5,475
Other income, net	1,109	395	3,060	3,227
Income tax expense	(737)	(381)	(1,768)	(2,881)
Net income	$ 26,678	$ 26,401	$ 83,281	$ 70,571
Accrued patronage distributions	$ 25,699	$ 26,146	$ 80,269	$ 66,786

See accompanying notes to the condensed consolidated financial statements.

ACE HARDWARE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	October 3, 2009 (39 Weeks)	September 27, 2008 (39 Weeks)
	(Unaudited, in thousands)	
Operating activities		
Net income	$ 83,281	$ 70,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,497	23,081
Amortization of deferred gain on sale leaseback	(961)	(958)
Amortization of deferred financing costs	2,047	964
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	3,133	5,984
Loss on disposal of assets, net	334	710
Deferred income tax expense (benefit)	2,638	(823)
Changes in operating assets and liabilities:		
Receivables	6,932	38,952
Inventories	312	(51,112)
Other current assets	4,931	(2,026)
Other long-term assets	(1,810)	905
Accounts payable and accrued expenses	35,407	38,152
Other long-term liabilities	(3,447)	4,902
Net cash provided by operating activities	157,294	129,963
Investing activities		
Purchases of marketable securities	(20,945)	(39,834)
Proceeds from sale of marketable securities	8,502	34,163
Purchases of property and equipment	(39,015)	(18,329)
Increase in notes receivable, net	(2,120)	(4,217)
Net cash used in investing activities	(53,578)	(28,217)
Financing activities		
Payments of short-term borrowings, net	(1,100)	(130,453)
Proceeds from long-term debt	—	295,800
Principal payments on long-term debt	(2,662)	(185,660)
Payment of deferred financing costs	—	(12,521)
Change in cash book overdraft	(11,946)	1,296
Payments of cash portion of patronage distribution	(15,599)	(17,443)
Payments of patronage refund certificates and patronage financing deductions	(19,526)	(20,222)
Proceeds from sale of stock	853	1,251
Repurchases of stock	(4,565)	(7,047)
Net cash used in financing activities	(54,545)	(74,999)
Increase in cash and cash equivalents	49,171	26,747
Cash and cash equivalents at beginning of period	80,326	84,385
Cash and cash equivalents at end of period	$129,497	$ 111,132
Supplemental disclosure of cash flow information:		
Interest paid (net of amount capitalized)	$ 20,302	$ 23,705
Income taxes paid	$ 8,429	$ 429

See accompanying notes to the condensed consolidated financial statements.

Ace Hardware Corporation
Notes to the Condensed Consolidated Financial Statements
(Unaudited, in thousands)

(1) Summary of Significant Accounting Policies

The Company and Its Business

Ace Hardware Corporation ("the Company") is a wholesaler of hardware and other related products and is a manufacturer and wholesaler of paint products. The Company also provides to its retail members value-added services such as advertising, marketing, merchandising and store location and design services. The Company's goods and services are sold predominately within the United States, primarily to retailers that operate hardware stores and with whom the Company has a retail membership agreement. As a retailer-owned cooperative, the Company distributes substantially all of its patronage sourced income in the form of patronage distributions to member retailers based on their volume of merchandise purchases. See Note 3, Patronage Distributions and Refund Certificates Payable, for further discussion regarding patronage distributions.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited condensed consolidated financial statements and notes should be read in conjunction with the financial statements and notes thereto included in the Company's 2008 Annual Report. The Company's three and nine month periods ended on the thirteenth and thirty-ninth weeks ended Saturday, October 3, 2009 and September 27, 2008, respectively.

Subsequent events have been evaluated through November 6, 2009, the date these statements were available to be issued.

The financial information included herein reflects all adjustments (consisting only of normal recurring adjustments), which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods presented. The results of operations for the three and nine months ended October 3, 2009 are not necessarily indications of the results to be expected for the full fiscal year 2009.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany transactions have been eliminated. Due to the timing of receipt of available financial information, the results of the Company's New Age Insurance Limited ("NAIL") subsidiary are consolidated on a one-month lag.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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. Actual results could differ from those estimates.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current financial statement presentation, with no net effect on the condensed consolidated balance sheets, statements of income or statements of cash flows.

Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") No. 105, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles," which was previously referred to as FASB Statement No. 168. This standard establishes the FASB Accounting Standards Codification ("Codification") as the single source of authoritative GAAP. The Codification does not create any new GAAP standards but incorporates existing accounting and reporting standards into a new topical structure. The Codification was effective for the Company July 5, 2009, and beginning with the third quarter interim report, a new referencing system will be used to identify authoritative accounting standards, replacing the references to FASB Statements, FASB Staff Positions ("FSPs"), Emerging Issues Task Force ("EITF") issues, etc. Existing standards will be designated by their ASC topical reference and new standards will be designated as Accounting Standards Updates, with a year and assigned sequence number.

In June 2006, the FASB issued updates to ASC No. 740, Income Taxes, previously referred to as FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN No. 48"). The updates clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. On December 30, 2008, the FASB issued FSP FIN No. 48-3 ("FSP FIN No. 48-3"), "Effective date of FIN No. 48 for Certain Nonpublic Enterprises," which deferred the effective date of the updates to fiscal years beginning after December 15, 2008. The Company has elected this deferral under FSP FIN No. 48-3, under which the updates will become effective for the Company for the fiscal year ended January 2, 2010. The Company is currently assessing the impact that these updates may have on the condensed consolidated financial statements, but the impact of initial adoption is not expected to be material to the Company's results of operations or its financial condition.

In April 2008, the FASB issued updates to ASC No. 320, Investments-Debt and Equity Securities, previously referred to as FSP FAS No. 115-2 and FAS No. 124-2, "Recognition and Presentation of Other-Than-Temporary-Impairments" ("FSP No. 115-2/124-2"). These updates change the recognition threshold of an other-than-temporary impairment ("OTTI") for debt securities and provide income statement relief by permitting the non-credit portion of the OTTI loss to be excluded from current earnings and reported in other comprehensive income. The update was effective for the Company's interim period ended July 4, 2009, and its adoption did not have a material impact to the Company's results of operations or its financial condition.

(2) Inventories

Inventories consist primarily of merchandise inventories. Substantially all of the Company's inventories are valued on the LIFO method. The excess of replacement cost over the LIFO value of inventory was $79,138 and $84,053 at October 3, 2009 and January 3, 2009, respectively. During the nine months ended October 3, 2009 and September 27, 2008, the Company incurred a LIFO decrement of $19,714 and $320, respectively. The liquidation of prior year layers resulted in a $3,435 and $46 increase in net income for the nine months ended October 3, 2009 and September 27, 2008, respectively.

Inventories consisted of:

	October 3, 2009	January 3, 2009
Manufacturing inventories:		
Raw materials	$ 3,872	$ 3,549
Work-in-process and finished goods	12,955	15,416
	16,827	18,965
Merchandise inventories:		
Warehouse inventory	443,292	441,466
Inventories	$460,119	$460,431

(3) Patronage Distributions and Refund Certificates Payable

The Company operates as a cooperative organization and has paid or may pay patronage distributions to member retailers on the portion of patronage based income derived from business done with such retailers. Patronage distributions are allocated in proportion to the volume of purchases by member retailers during the period.

In 2009, the Board of Directors approved a revised patronage distribution plan which changed the amount of the patronage distribution paid in cash to 35% from 20% effective for the 2009 fiscal year to be paid in 2010. The remaining balance of the patronage distribution is applied to the retailer member's variance allocation account until the account is reduced to zero and any remaining patronage distribution is distributed in the Company's Class C stock.

Prior to 2007, a portion of the patronage distribution was distributed in the form of a patronage refund certificate having maturity dates and bearing interest as determined by the Company's Board of Directors.

The patronage refund certificates outstanding at October 3, 2009 are payable as follows:

	Amount	Interest Rate
2010	$19,306	5.00%
2011	17,188	6.00%
2012	18,090	6.00%

(4) Debt

Line of Credit

On May 15, 2008, the Company entered into a $300,000 senior secured revolving credit facility with a group of banks, which matures on May 15, 2013 and includes $175,000 available for letters of credit. Borrowings under this facility as of October 3, 2009 bear interest at a spread of 175 to 250 basis points over LIBOR based on availability. Fees are assessed on a monthly basis for the unused portion of the line of credit at 50 basis points per annum. This fee decreases to 37.5 basis points when more than 50% of the line of credit is outstanding.

This credit facility is available to fund short-term working capital needs, of which $236,052 and $222,108 was available and $0 and $1,100 was drawn at October 3, 2009 and January 3, 2009, respectively. The credit facility

availability is calculated by considering the qualified underlying asset collateral and is reduced by outstanding letters of credit as defined by the credit facility agreement. At October 3, 2009, the credit facility availability was calculated by considering $267,682 of qualified pledged collateral less $31,630 of outstanding letters of credit. The credit agreement requires the Company to comply with various financial and nonfinancial covenants. The financial covenant is a minimum fixed charge coverage ratio triggered if borrowing availability, as determined under the credit agreement, is less than $30,000. The Company was in compliance with these covenants at October 3, 2009.

Long-Term Debt

On May 15, 2008, the Company issued $300,000 of senior secured notes maturing June 1, 2016 and bearing an interest coupon of 9.125%. The effective interest rate on this debt is 9.37%. The proceeds were used to retire $257,286 of prior debt, $6,594 of make-whole payments associated with the retirement of the prior debt, $12,762 of deferred financing costs associated with the senior secured notes and for general corporate purposes. As a result of this financing, the Company expensed $661 of previously unamortized deferred financing costs related to its prior debt. During the second quarter 2008, the Company recorded the make-whole payments, the write-off of the unamortized deferred financing costs associated with the prior debt and a payment of $4,602 related to the settlement of an interest rate swap as a loss on early extinguishment of debt in the condensed consolidated statements of income.

Long-term debt is comprised of the following:

	October 3, 2009	January 3, 2009
$290,005 face value senior notes less unamortized discount of $3,364 and $3,743, due at maturity with interest payable semi-annually, commencing on December 1, 2008, bearing an interest coupon rate of 9.125% and a maturity date of June 1, 2016	$286,641	$286,262
Installment notes with maturities through 2013 at a fixed rate of 6.00%	13,005	9,594
Total long-term debt	299,646	295,856
Less: maturities within one year	(4,421)	(3,358)
Long-term debt	$295,225	$292,498

The weighted average interest rate on long-term debt was 9.25% and 8.66% for the nine months ended October 3, 2009 and the year ended January 3, 2009, respectively.

The indenture governing the 9.125% senior secured notes contains covenants, representations and events of default that management considers typical of an indenture of this nature. These covenants limit the Company's ability to: (i) incur additional indebtedness; (ii) create liens; (iii) pay dividends or make other restricted payments; and (iv) make asset sales and enter into sale and leaseback transactions. The Company was in compliance with these covenants at October 3, 2009.

(5) Derivative Financial Instrument

On April 28, 2008, the Company terminated its $50,000 interest rate swap agreement and incurred a termination payment of $4,602, which was recorded in loss on early extinguishment of debt in the condensed consolidated statements of income. The Company also recorded an unrealized loss of $1,050 for the nine months ended September 27, 2008, for the swap agreement in accumulated other comprehensive loss. No amount was recorded in operating income as there was no hedge ineffectiveness for this period.

(6) Comprehensive Income

Comprehensive income includes the following components:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Net income	$26,678	$26,401	$83,281	$70,571
Foreign currency translation adjustment	(1)	59	45	(3)
Unrealized gain (loss) on investments in marketable securities, net	668	(888)	1,205	(1,545)
Unrealized loss on derivative	—	—	—	(1,050)
Comprehensive income	$27,345	$25,572	$84,531	$67,973

(7) Income Taxes

Income tax expense differs from the amount computed by applying the statutory U.S. Federal income tax rate of 35% to income before income taxes because of the effect of the following items:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Expected tax at U.S. Federal income tax rate	$(9,595)	$(9,374)	$(29,767)	$(25,708)
Patronage distribution deductions	8,995	9,151	28,094	23,375
Other, net	(137)	(158)	(95)	(548)
Income tax expense	$ (737)	$ (381)	$ (1,768)	$ (2,881)

(8) Capital Stock

During the first quarter of 2009, the Company's Board of Directors approved the retirement of the Company's treasury stock and, subject to certain conditions, the redemption of Class B stock. These conditions were satisfied and 1,268 shares of Class B stock were redeemed during the second quarter of 2009. The treasury stock retirement resulted in a reduction to treasury stock of $10,406, a reduction to Class B stock of $5,203 and a reduction to contributed capital of $5,203. The redemption of the Class B stock resulted in reductions to Class B stock and contributed capital of $1,268 each. The Company has an outstanding liability at October 3, 2009 of $304 for redeemable shares not yet surrendered. The retirement and redemption did not have a material impact on the Company's condensed consolidated statements of income or statements of cash flows.

(9) Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

There is a three-level hierarchy for disclosure to show the extent and level of judgment used to estimate fair value measurements.

Level 1 — Uses unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date.

Level 2 — Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data.

Level 3 — Uses inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The tables below set forth, by level, the Company's assets that were accounted for at fair value as of October 3, 2009 and January 3, 2009. The tables do not include cash on hand and also do not include assets and liabilities that are measured at historical cost or any basis other than fair value. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments.

Items measured at fair value on a recurring basis:	Carrying Value Measured at Fair Value October 3, 2009	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	$121,881	$121,881	$—	$—
Marketable securities	44,202	44,202	—	—
Total assets	$166,083	$166,083	$—	$—

	Carrying Value Measured at Fair Value January 3, 2009	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	$ 74,015	$ 74,015	$—	$—
Marketable securities	31,147	31,147	—	—
Total assets	$105,162	$105,162	$—	$—

The principal balance of the Company's senior secured notes outstanding at October 3, 2009 and January 3, 2009 was $290,005. Based on market activity, the fair value of the notes was $304,505 and $203,350 at October 3, 2009 and January 3, 2009, respectively.

(10) Segments

The Company has two reportable segments based on the way that its chief operating decision maker organizes the Company's business activities for making operating decisions and assessing performance. The Company is principally engaged as a wholesaler of hardware and other related products and is a manufacturer and wholesaler of paint products. The Company identifies segments based on management responsibility and the nature of the business activities of each component of the Company. Corporate expenses are included in the wholesale segment. The Company measures segment profit as operating profit including an allocation of interest expense and income taxes based on sales. Information regarding the identified segments and the related reconciliation to condensed consolidated information is as follows:

	Three Months Ended October 3, 2009				
	Wholesale	Paint Manufacturing	Other	Elimination of Intersegment Activities	Consolidated
Revenues from external customers	$ 827,363	$ 3,667	$ 1,544	$ —	$ 832,574
Intersegment sales	—	32,697	—	(32,697)	—
Interest expense	8,527	241	—	—	8,768
Depreciation and amortization	7,718	511	—	—	8,229
Segment profit	22,221	4,374	83	—	26,678
Identifiable segment assets	1,209,806	54,968	59,371	—	1,324,145
Expenditures for long-lived assets	17,849	870	—	—	18,719

	Three Months Ended September 27, 2008				
	Wholesale	Paint Manufacturing	Other	Elimination of Intersegment Activities	Consolidated
Revenues from external customers	$ 960,958	$ 4,493	$ 1,559	$ —	$ 967,010
Intersegment sales	—	39,820	—	(39,820)	—
Interest expense	9,262	281	—	—	9,543
Depreciation and amortization	7,243	807	—	—	8,050
Segment profit (loss)	23,303	3,938	(840)	—	26,401
Identifiable segment assets	1,289,681	59,282	57,731	—	1,406,694
Expenditures for long-lived assets	4,247	184	—	—	4,431

	Nine Months Ended October 3, 2009				
	Wholesale	Paint Manufacturing	Other	Elimination of Intersegment Activities	Consolidated
Revenues from external customers	$2,640,802	$11,413	$ 4,672	$ —	$2,656,887
Intersegment sales	—	96,809	—	(96,809)	—
Interest expense	26,240	667	—	—	26,907
Depreciation and amortization	22,641	1,856	—	—	24,497
Segment profit	73,772	8,955	554	—	83,281
Identifiable segment assets	1,209,806	54,968	59,371	—	1,324,145
Expenditures for long-lived assets	37,963	1,052	—	—	39,015

Ace Hardware Corporation
Notes to the Condensed Consolidated Financial Statements
(Unaudited, in thousands)

	Nine Months Ended September 27, 2008				
	Wholesale	Paint Manufacturing	Other	Elimination of Intersegment Activities	Consolidated
Revenues from external customers	$2,883,460	$ 13,703	$ 5,219	$ —	$2,902,382
Intersegment sales	—	102,812	—	(102,812)	—
Interest expense	23,989	731	—	—	24,720
Depreciation and amortization	20,660	2,421	—	—	23,081
Segment profit	62,512	7,569	490	—	70,571
Identifiable segment assets	1,289,681	59,282	57,731	—	1,406,694
Expenditures for long-lived assets	18,078	251	—	—	18,329

The Company has $73 of long-lived assets outside of the United States.

Revenues by geographic region and revenue type are as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Revenues by geographic region:				
United States	$786,446	$907,697	$2,527,495	$2,741,394
Foreign countries	46,128	59,313	129,392	160,988
Total	$832,574	$967,010	$2,656,887	$2,902,382
Revenue type:				
Merchandise sales	$764,185	$889,628	$2,444,190	$2,662,815
Retail services	68,389	77,382	212,697	239,567
Total	$832,574	$967,010	$2,656,887	$2,902,382

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's condensed consolidated financial statements and the related notes appearing elsewhere in this quarterly report as well as with the Company's 2008 Annual Report. Results of the interim periods presented are not necessarily indicative of the results to be expected for the full fiscal year due to seasonal and other factors.

Executive Overview

For the three and nine months ended October 3, 2009, the Company's revenues decreased $134.4 million and $245.5 million, or 13.9% and 8.5%, respectively, compared to the prior year. For the three and nine months ended October 3, 2009, merchandise sales to comparable domestic stores decreased $99.6 million and $164.2 million, or 10.3% and 5.7%, respectively, compared to the prior year. For the three and nine months ended October 3, 2009, gross profit decreased $10.8 million and $6.3 million, or 9.0% and 1.8%, respectively, compared to the prior year. For the three and nine months ended October 3, 2009, operating expenses decreased $11.1 million and $10.5 million, or 12.7% and 4.3%, respectively, compared to the prior year. For the three and nine months ended October 3, 2009, the Company reported net income of $26.7 million and $83.3 million, an increase of $0.3 million and $12.7 million, or 1.0% and 18.0%, respectively, compared to the prior year.

Management utilizes a variety of key performance measures to evaluate the performance of the Company's business. These measures include revenues, store count, gross profit percentage, operating expenses and debt levels.

Results of Operations

Comparison of the Three Months Ended October 3, 2009 to the Three Months Ended September 27, 2008

Consolidated revenues for the three months ended October 3, 2009 totaled $832.6 million, a decrease of $134.4 million, or 13.9%, as compared to the prior year. Total merchandise sales were $764.2 million, a decrease of $125.4 million, or 14.1%, as compared to the prior year. A reconciliation of consolidated revenues follows (in thousands):

		% Change vs. 2008
2008 Revenues	$967,010	
Merchandise sales change based on new and cancelled domestic stores:		
Sales increase from 2009/2008 new stores	12,085	1.2%
Net decrease in sales from 2009/2008 store cancellations	(25,328)	(2.6)%
Decrease in merchandise sales to comparable domestic stores	(99,643)	(10.3)%
Decrease in international merchandise sales	(12,160)	(1.3)%
Other revenue changes	(9,390)	(0.9)%
2009 Revenues	$832,574	(13.9)%

New stores for this three month comparison are defined as stores that were activated from January 2008 through September 2009. In 2009, the Company had an increase in sales due to new domestic stores of $12.1 million. This increase was offset by a decrease in sales due to domestic store cancellations of $25.3 million.

Merchandise sales to comparable domestic stores decreased $99.6 million primarily due to the economic recession. On a category basis, the largest sales declines were in the plumbing, electrical and hardware categories. International merchandise sales decreased $12.2 million due to a slow global economy. On a regional basis, international sales were most negatively impacted by declines in the South America, Middle East and Pacific Rim regions.

The number of the Company's retailer outlets is summarized as follows:

Three Months Ended	October 3, 2009	September 27, 2008
Retailer outlets at beginning of period	4,530	4,683
New retailer outlets	24	25
Retailer outlets cancellations	(43)	(54)
Retailer outlets at end of period	4,511	4,654

Management believes that new store count is a key metric in evaluating the health of the Company due to the incremental volume from these stores in future periods. The Company activated 24 and 25 stores in 2009 and 2008, respectively.

Gross profit decreased $10.8 million but, as a percentage of revenues, increased 70 basis points to 13.2% in 2009 from 12.5% in 2008. The increase in gross profit percentage in 2009 was attributable to LIFO inventory deflationary benefits, higher vendor rebate recoveries and a shift from direct ship sales towards a higher percentage of warehouse sales which carry higher handling charges. The increase in gross profit percentage resulting from these factors was partially offset by lower product margins on merchandise sales. Warehouse sales represented 79.9% of merchandise sales in 2009 compared to 78.3% in 2008, while direct ship sales were 20.1%, down from 21.7%.

Operating expenses decreased by $11.1 million but increased as a percent of revenues to 9.2% in 2009 from 9.0% in 2008. The drivers for the decrease in operating expenses were lower selling, general and administrative expenses of $5.4 million due primarily to lower bad debt expense, lower retail success and development expenses of $3.6 million due primarily to lower field support expenses driven by diligent expense control, and lower distribution operations expenses of $2.1 million due primarily to lower direct warehouse wages and related benefits partially offset by lower expenses capitalized into inventory. In addition, employee benefit expenses in each operating expense category were lower as a result of the timing of these accruals during 2009 as compared to 2008.

Interest expense decreased $0.8 million primarily due to lower principal balances. Average interest rates decreased to 9.2% in 2009 from 9.3% in 2008.

Interest income decreased $1.1 million primarily due to lower interest rates and reduced principal balances on outstanding retailer loans.

Comparison of Nine Months Ended October 3, 2009 to Nine Months Ended September 27, 2008

Consolidated revenues for the nine months ended October 3, 2009 totaled $2.7 billion, a decrease of $245.5 million, or 8.5%, as compared to the prior year. Total merchandise sales were $2.4 billion, a decrease of $218.6 million, or 8.2%, as compared to the prior year. A reconciliation of consolidated revenues follows (in thousands):

		% Change vs. 2008
2008 Revenues	$2,902,382	
Merchandise sales change based on new and cancelled domestic stores:		
Sales increase from 2009/2008 new stores	49,668	1.7%
Net decrease in sales from 2009/2008 store cancellations	(73,933)	(2.5)%
Decrease in merchandise sales to comparable domestic stores	(164,211)	(5.7)%
Decrease in international merchandise sales	(30,329)	(1.0)%
Other revenue changes	(26,690)	(1.0)%
2009 Revenues	$2,656,887	(8.5)%

New stores for this nine month comparison are defined as stores that were opened from January 2008 through September 2009. In 2009, the Company had an increase in sales from new domestic stores of $49.7 million. This increase was offset by a decrease in sales from domestic store cancellations of $73.9 million.

Merchandise sales to domestic stores decreased $164.2 million primarily due to the economic recession. On a category basis, domestic sales were most negatively impacted by declines in the electrical, tools and plumbing categories. International merchandise sales decreased $30.3 million due to a slow global economy with the largest sales decline in the Middle East region.

The number of the Company's retailer outlets is summarized as follows:

Nine Months Ended	October 3, 2009	September 27, 2008
Retailer outlets at beginning of period	4,581	4,706
New retailer outlets	89	92
Retailer outlet cancellations	(159)	(144)
Retailer outlets at end of period	4,511	4,654

Management believes that new store count is a key metric in evaluating the health of the Company due to the incremental volume from these stores in future periods. The Company activated 89 and 92 stores in 2009 and 2008, respectively.

Gross profit decreased $6.3 million but, as a percentage of revenues, increased 90 basis points to 12.9% in 2009 from 12.0% in 2008. The increase in gross profit percentage in 2009 was attributable to LIFO inventory deflationary benefits, lower inbound freight costs and a shift from direct ship sales towards a higher percentage of warehouse sales which carry higher handling charges. The increase in gross profit percentage resulting from these factors was partially offset by lower product margins on merchandise sales. Warehouse sales represented 77.8% of merchandise sales in 2009 compared to 76.0% in 2008, while direct ship sales were 22.2%, down from 24.0%.

Operating expenses decreased $10.5 million but increased as a percent of revenues to 8.9% in 2009 from 8.5% in 2008. The primary drivers for the decrease in operating expenses were lower selling, general and

administrative expenses of $8.1 million due primarily to lower non-recurring expenses during 2009 compared to 2008 and lower retail success and development expenses of $6.8 million due primarily to lower field support expenses driven by diligent expense control.

The overall decrease in operating expense was partially offset by higher distribution operations expense of $4.4 million which increased as a percentage of revenues to 2.7% from 2.3% in 2008 as a result of lower expenses capitalized into inventory partially offset by lower retail support center expenses. In addition, employee benefit expenses in each operating expense category were higher as a result of the timing of these accruals during 2009 as compared to 2008.

Interest expense increased $2.2 million due to higher interest rates. Average interest rates increased to 9.3% in 2009 from 7.8% in 2008. The Company also recorded a loss on the early extinguishment of debt of $11.9 million in 2008.

Interest income decreased $2.1 million primarily due to lower interest rates and reduced principal balances on outstanding retailer loans.

Income tax expense decreased $1.1 million primarily due to lower pretax earnings from the Company's insurance subsidiary, e-commerce operations and non-member store activity, along with lower foreign taxes on licensing and royalty fee income.

Liquidity and Capital Resources

The Company's liquidity requirements have historically arisen from, and are expected to continue to arise from, working capital, debt service, capital improvements, patronage distributions and other general corporate purposes. In the past, the Company has met its operational cash needs using cash flows from operating activities and available funds from its revolving credit facility. The Company currently estimates that its cash flows from operating activities and working capital, together with its line of credit, will be sufficient to fund its short-term liquidity needs. Actual liquidity and capital funding requirements depend on numerous factors, including operating results and general economic conditions.

Cash Flows

The Company had $129.5 million and $80.3 million of cash and cash equivalents at October 3, 2009 and January 3, 2009, respectively.

For the nine months ended October 3, 2009 and September 27, 2008, the increase in cash and cash equivalents was primarily due to the following:

- Net cash provided by operating activities was $157.3 million and $130.0 million for 2009 and 2008, respectively. The increase in cash provided by operating activities was primarily due to a decrease in inventory levels in the current year as opposed to an increase in the prior year along with the payment for the early extinguishment of debt in 2008. These were partially offset by fewer cash collections of receivables, and a decrease in other long-term liabilities.
- Net cash used in investing activities was $53.6 million and $28.2 million for 2009 and 2008, respectively. Net cash used in 2009 increased primarily due to a higher capital investment related to the Company's supply chain initiative.
- Net cash used in financing activities was $54.5 million and $75.0 million for 2009 and 2008, respectively. The decrease in net cash used was primarily due to changes in the refinancing of debt in 2008 partially offset by changes in the cash book overdraft.

Application of Critical Accounting Policies and Estimates

For a description of the Company's critical accounting policies and estimates, please see the Application of Critical Accounting Policies and Estimates section in the Management's Discussion and Analysis of Financial Condition and Results of Operations Section of the Company's 2008 Annual Report.

Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") No. 105, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles," which was previously referred to as FASB Statement No. 168. This standard establishes the FASB Accounting Standards Codification ("Codification") as the single source of authoritative GAAP. The Codification does not create any new GAAP standards but incorporates existing accounting and reporting standards into a new topical structure. The Codification was effective for the Company July 5, 2009, and beginning with the third quarter interim report, a new referencing system will be used to identify authoritative accounting standards, replacing the references to FASB Statements, FASB Staff Positions ("FSPs"), Emerging Issues Task Force ("EITF") issues, etc. Existing standards will be designated by their ASC topical reference and new standards will be designated as Accounting Standards Updates, with a year and assigned sequence number.

In June 2006, the FASB issued updates to ASC No. 740, Income Taxes, previously referred to as FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN No. 48"). The updates clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. On December 30, 2008, the FASB issued FSP FIN No. 48-3 ("FSP FIN No. 48-3"), "Effective date of FIN No. 48 for Certain Nonpublic Enterprises," which deferred the effective date of the updates to fiscal years beginning after December 15, 2008. The Company has elected this deferral under FSP FIN No. 48-3, under which the updates will become effective for the Company for the fiscal year ended January 2, 2010. The Company is currently assessing the impact that these updates may have on the condensed consolidated financial statements, but the impact of initial adoption is not expected to be material to the Company's results of operations or its financial condition.

In April 2008, the FASB issued updates to ASC No. 320, Investments-Debt and Equity Securities, previously referred to as FSP FAS No. 115-2 and FAS No. 124-2, "Recognition and Presentation of Other-Than-Temporary-Impairments" ("FSP No. 115-2/124-2"). These updates change the recognition threshold of an other-than-temporary impairment ("OTTI") for debt securities and provide income statement relief by permitting the non-credit portion of the OTTI loss to be excluded from current earnings and reported in other comprehensive income. The update was effective for the Company's interim period ended July 4, 2009, and its adoption did not have a material impact to the Company's results of operations or its financial condition.

Qualitative and Quantitative Disclosure About Market Risk

Inflation and Changes in Prices. The Company's business is not generally governed by contracts that establish prices substantially in advance of the receipt of goods or services. As vendors increase their prices for merchandise supplied to the Company, the Company generally increases the price to its retailers in an equal amount plus the normal handling charge on such amounts. In the past, these increases have provided adequate gross profit to offset the impact of inflation on operating expenses.

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 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.

EBITDA and adjusted EBITDA, as presented in this quarterly report, are supplemental measures of the Company's performance that are not required by or presented in accordance with 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 believe 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		Nine Months Ended	
	October 3, 2009 (13 Weeks)	September 27, 2008 (13 Weeks)	October 3, 2009 (39 Weeks)	September 27, 2008 (39 Weeks)
	(Unaudited, in thousands)			
EBITDA Reconciliation:				
Net income	$26,678	$26,401	$ 83,281	$ 70,571
Income tax expense	737	381	1,768	2,881
Interest expense (including loss on early extinguishment of debt in 2008)	8,768	9,543	26,907	36,577
Depreciation and amortization	8,229	8,050	24,497	23,081
EBITDA	$44,412	$44,375	$136,453	$133,110
Adjustments:				
Interest income (a)	(1,248)	(2,326)	(3,361)	(5,475)
Debt restructuring and restatement related expenses (b)	—	—	—	4,204
Remediation expenses (c)	—	466	—	3,953
Severance (d)	1,079	—	1,643	1,407
Other adjustments	—	—	651	—
Adjusted EBITDA	$44,243	$42,515	$135,386	$137,199

(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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The condensed consolidated financial statements presented in this Quarterly Report have been prepared with integrity and objectivity and are the responsibility of the management of Ace Hardware Corporation. These condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and properly reflect certain estimates and judgments based upon the best available information.

The Company maintains a system of internal accounting controls, which is supported by an internal audit program and is designed to provide reasonable assurance, at an appropriate cost, that the Company's assets are safeguarded and transactions are properly recorded. This system is continually reviewed and modified in response to changing business conditions and operations and as a result of recommendations by the internal and external auditors. In addition, the Company has distributed to employees its policies for conducting business affairs in a lawful and ethical manner.

The Audit Committee of the Board of Directors meets periodically with the independent auditors and with the Company's internal auditors, both privately and with management present, to review accounting, auditing, internal control and financial reporting matters. The Audit Committee retains the independent auditors and regularly reviews the internal accounting controls, the activities of the outside auditors and internal auditors and the financial condition of the Company. Both the Company's independent auditors and the internal auditors have free access to the Audit Committee.

November 6, 2009

/s/ Ray A. Griffith
Ray A. Griffith
President and
Chief Executive Officer

/s/ Dorvin D. Lively
Dorvin D. Lively
Senior Vice President and
Chief Financial Officer

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