



ACE[®]

Stories from a Community

ACE HARDWARE 2011 ANNUAL REPORT





Founded in 1924 in Chicago by a small group of local hardware store owners, Ace changed the retail landscape forever by allowing individual stores to purchase merchandise in bulk.

The Ace story has been told ever since in thousands of communities across America. Known and loved as the helpful hardware store, customers have come to depend on Ace to help them take care of their homes quickly and easily so they can get on with their lives. With 4,600 locally owned and operated hardware stores, Ace is the largest hardware cooperative in the industry. Headquartered in Oak Brook, Illinois, as of 2011, Ace currently operates fourteen distribution centers in the U.S., with distribution facilities in Shanghai, China; Panama City, Panama; and Dubai, United Arab Emirates. Its retailers' stores are located in all fifty states, the District of Columbia, and approximately sixty countries. As part of the local community, Ace provides quick and easy solutions to the home maintenance and repair needs of their neighbors.



Together We Are Ace



Thanks to our Ace consumers, retailers, team members, and vendor partners, 2011 was a very solid year for us! *Together* we had many successes, as highlighted throughout this annual report.

Despite a challenging economy in 2011, Ace had many positive milestones. Our wholesale revenues were up 5.1 percent – the highest wholesale revenue increase we’ve had since 2006. We achieved a net income of \$77.7 million, surpassing our budgeted goal of \$75 million. We opened 148 new Ace stores worldwide, the largest number of new stores opened since 2007. Ace retailers’ comparable same store sales ended up 2.9 percent – the highest same store sales increase since 2005. Additionally, we successfully transitioned our international operations into a separate company to accelerate the growth of the Ace Brand worldwide.

We introduced the most successful new product launch in the history of Ace with our new line of paint, Clark+Kensington, with over 2,800 retailers embracing this new offering. The Craftsman tool program was implemented in over 1,000 Ace stores. The Ace Brand continues to be recognized and valued across the world, and Ace continues to win awards and accolades that no other



hardware company has ever received, and we remain the #1 distributor in our industry.

We applaud our hardworking and dedicated retailers and team members across the globe that live and work in their neighborhoods and contribute to their communities in so many positive ways. Truly, America and the world is a better place because of all of you.

The exciting news is that even after over eighty-five years, we are just getting started. We have many opportunities before us and much to improve upon as we embark on 2012. The continually changing landscape requires us all to look at our businesses differently and position them for future success in ways we might not have considered a few years ago. While our industry will continue to have world-class competitors, we will focus Ace around the success of our retail model, our “hedgehog,” and our core strengths. Together our future is bright. We like where we are, and you have our pledge that we will continue to work hard to make Ace the place...*together*.

Sincerely,

David Ziegler
Chairman of the Board

Ray A. Griffith
CEO and President

Year in Review

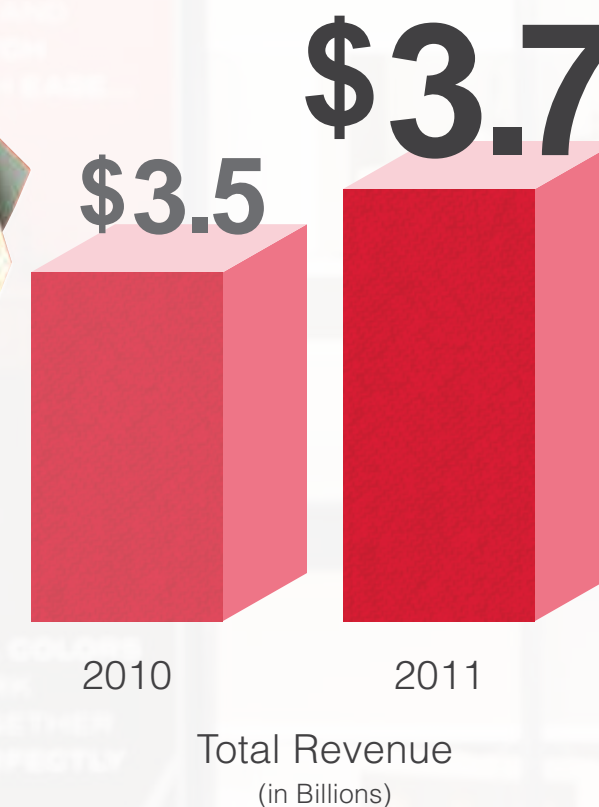
Ace is pleased to present its fiscal 2011 financial results. Revenues and net income were both higher than 2010, surpassing expectations and reflecting the vision, focus, and hard work of the entire corporation. Ace remains committed to investing in strategic initiatives to create further increases at both the wholesale and retail level in 2012.

It's worth a moment or two to reflect on how 2011 unfolded. We started the year with all of our systems converted to SAP, and we fought through all the delays and learning issues associated with this massive transition. We are now confident that your company has a secure infrastructure under it and that additional benefits will be realized in the upcoming years due to the completion of this project.

The first year of our restructured international division has been a successful one. Although slightly short of budget, sales were up 6 percent and bottom line profits exceeded budget by over 100 percent. New licenses and/or letters of intent were signed in Canada, Mexico, Egypt, Bahrain, Haiti, Puerto Rico, the Caribbean, and Iraq. Twenty new stores were opened, and we opened new distribution centers in Dubai and Panama. We also converted our facility in Shanghai, allowing us to be more competitive. Thanks to the tireless efforts of many people, this division is poised well for future growth in years to come.

2011 KEY POINTS:

- Operating expenses were 9.2 percent of revenues, down from 9.7 percent in 2010
- Net income of \$77.7 million was up 3.4 percent from 2010
- Merchandise sales to comparable stores increased \$123.7 million, up 4.2 percent from 2010
- Gross profit was \$447.3 million, an increase of \$3.0 million from 2010



Total revenues of \$3.7 billion were up 5.1 percent from 2010.

Ace continues to be "the helpful hardware place," giving our customers the excellent service they've come to expect. The wide variety of products provides customers with a fantastic shopping experience, making Ace a convenience hardware retailer like no other!

► DG ACE HARDWARE

DG Ace Hardware, owned and operated by the Schaefer family, is a chain of eleven stores – seven in Sarasota, Florida; two in Chicago; one in southern Wisconsin; and the newest in Ft. Myers, Florida. The Schaefer family has been in the hardware business for over thirty years. Five years ago, they made a decision to leave Ace and join Do It Best. However, after experiencing a loss of revenue and the downturn in the economy, Rohn Schaefer took a long, hard look at his business and decided to return. He cites sales growth, retail pricing, quality of merchandise, retail tools, and brand recognition as key factors that influenced his decision. Welcome back, DG Ace!



Joining the Ace Family Leveraging Success

As the largest co-op in the convenience hardware industry, Ace offers conversion stores the opportunity to stock their shelves at an overall lower cost of goods and share in Ace's globally recognized brand. Ace's team of industry experts invest in our owners' success so they can do what they do best: focus on the customer.



► HAHN ACE HARDWARE

Perry and Barbara Hahn are the owners of Hahn Ace Hardware in Hartford, Wisconsin. When they purchased their store thirteen years ago, it had been a True Value store for over forty years. (As a teenager, Perry had actually worked there as a stock boy!) Perry has a true competitive spirit and has always done what it takes to succeed. Not afraid to take risks, when he began to have concerns about the direction of

True Value and its cost of goods structure, he took a look at Ace. Through the tenacity of the local district manager, Steve Larsen, who followed up regularly and introduced him to the uniqueness of the Ace culture, Perry decided to convert his store to Ace. He recognizes that Ace is on a path for continued growth, and the Ace business model fit his needs better than any other options.

Initiatives

Ace's Two-Paint Strategy

Ace continues to be committed to the value of a two-paint strategy to anchor its paint department and provide simple, convenient paint solutions for homes within a store's local neighborhood.

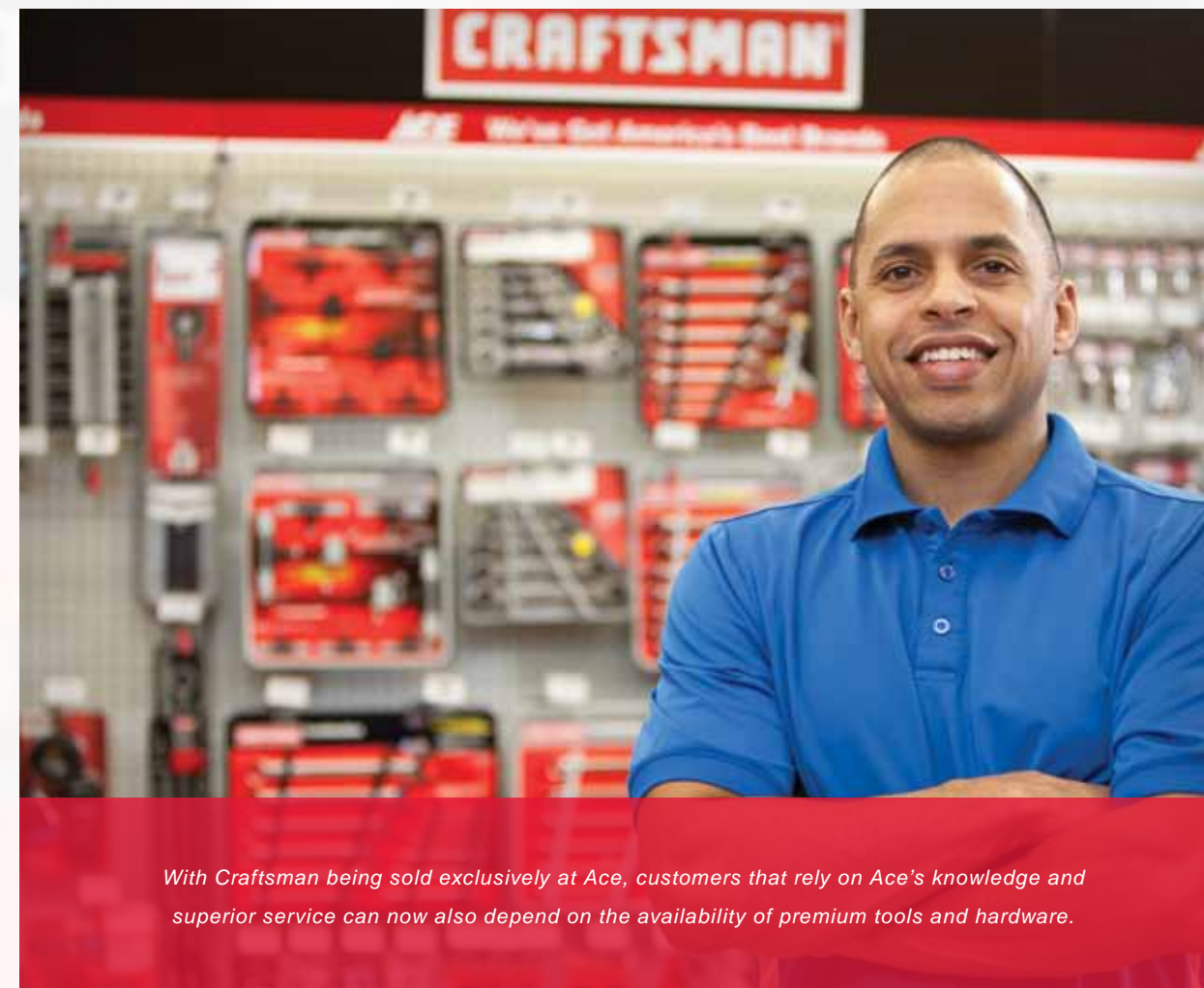
CLARK+KENSINGTON

In our quest to serve the local community with the best products available, Ace introduced a new brand, Clark+Kensington, in 2011. From its initial launch it has been well received by both retailers and consumers.

In addition to being both paint and primer in one to save customers time and effort, the line offers 120 inspiring, harmonious colors designed to help consumers easily navigate the color-decision process. Look for an aggressive marketing plan in 2012, including network and cable television and radio campaigns and public relation events.

BENJAMIN MOORE

With its excellent color selection and reputation for excellence, Benjamin Moore's ultra-premium products continue to drive top-line sales and attract the discerning consumer who prefers a nationally branded product.



With Craftsman being sold exclusively at Ace, customers that rely on Ace's knowledge and superior service can now also depend on the availability of premium tools and hardware.

Ace and Craftsman: A Strategic Partnership

An alliance between these two trusted brands reinforces Ace's position as a premium destination for customers shopping for tools and other quality core hardware products. It's just another example of how Ace provides benefit to both retailers and the communities they serve.

Since the inception of our agreement in 2010 with Sears to sell Craftsman, Ace remains the exclusive retailer of Craftsman products in the convenience hardware industry. By the end of 2011, over 1,000 stores are carrying a full line of Craftsman products, with a future projection of 2,500 stores nationally. This number demonstrates the brand's strength as well as our retailers' commitment to offer the best products and the most helpful service that consumers have come to expect from Ace. Stores that offer all available Craftsman products report double-digit growth in the tool category over stores that currently don't carry the line. In the tool category at the wholesale level, Craftsman has also contributed double-digit growth.

Ace Foundation

20 Years of Miracles

Ace has always cared about the local communities we serve, whether bustling cities or quiet rural towns, and this is why we established the Ace Foundation back in 1991.

The foundation serves as an umbrella over the charitable fundraising efforts of our store owners, Ace Hardware Corporation, and Ace vendor partners for the benefit of the Children's Miracle Network Hospitals and the American Red Cross.

2011 was the Ace Foundation's 20th anniversary, and Ace team members from all over the nation helped make it a very special year. From in-store fundraising, golf outings, store events, and many volunteer programs, the Ace family made a tangible difference to kids in their communities.

With the help and support of store owners, employees, and customers, the Foundation donated more than \$3.9 million – an increase of more than \$1 million from 2010 – to Children's Miracle Network Hospitals.

One successful highlight this year was Ace's sponsorship of the Champions program, a month-long fundraising initiative. One child from each state – all of whom had undergone medical care at a Children's Miracle Network Hospital – was chosen as a champion. In October, all the champions were treated to a trip to Walt Disney World and Washington, D.C. Accompanied by

some of the Ace family, including Ray Griffith, Gina Schaefer, and Jimmy Alexander, the kids had a wonderful time and were an inspiration to everyone around them.

To make this possible, a record number of stores (260 more than in 2010) contributed donations and raised funds. The total raised came to \$307,487, an increase of \$133,000 over 2010.

The Ace Foundation believes the increase was due to the personal connections the retailers made with an individual child from their own state. The Ace team connected with the fact that they were reaching out to kids in their own communities – kids whose parents might shop at their local Ace store.

Other special events that took place included:

- 4th Annual Motorcycle Miracle Mission, which raised nearly \$40,000
- Ace Paint Century Bike Ride, featuring over 300 riders and raising \$80,000
- Ace retailers organized grilling competitions, ski events, in-store campaigns, and hosted Champion send-off events
- Ace corporate employees participated in their local Children's Hospital, made 200 no-sew fleece blankets, and volunteered at the hospital's Radiothon

The Ace Foundation continues to prove that giving of one's time is still a meaningful way to give back to one's community!



Positive Marketing Accolades

Throughout its long history, Ace has generated positive recognition in the industry. Here are some recent honors:



BUSINESS WEEK'S CUSTOMER SERVICE CHAMPS

Ace made Business Week's top ten Customer Service Champs list, joining other top companies such as LL Bean, Nordstrom, and Apple. New tools and helpful employees contributed to Ace's spot on this prestigious list for the fourth year in a row.



J.D. POWER AND ASSOCIATES

J.D. Power and Associates has ranked Ace Hardware highest in customer satisfaction with home-improvement retail stores for the fifth consecutive year. The study ranks stores across five key areas, and Ace scored the highest in the two most important areas: staff and service and store facilities.



FRANCHISE TIMES

Ace Hardware has once again ranked high in the *Franchise Times* 200, coming in at #6 for 2011. The *Franchise Times* 200 is an annual ranking of the 200 largest franchise systems in the U.S. by worldwide sales.

It's people like Nick, who has worked in Ace stores for fifteen years, that keep Ace ahead of its competitors and ensure that loyal customers keep coming back!



Ace's Owners Lead By Serving

Ace fosters a culture of caring and leadership, and this often goes far beyond the retail environment.

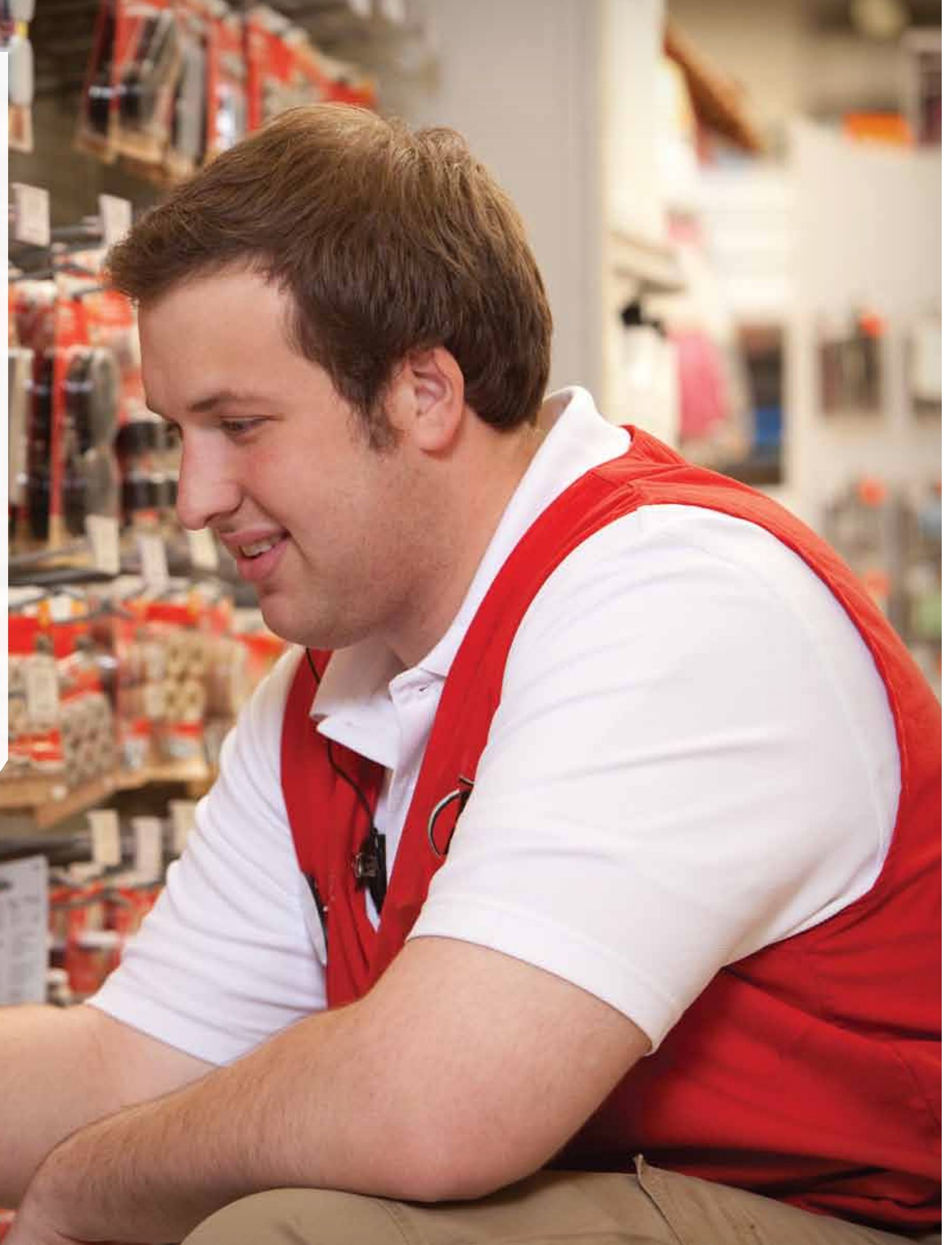
The Helpful Group

Just as Tom Glenn has done in his business career, he is now climbing the volunteer ladder through his involvement in United Way.

Tom Glenn, president of The Helpful Group, a chain of sixteen Ace Hardware stores located in Tennessee and Northwest Georgia, currently serves on the Board of Directors of the United Way of Greater Chattanooga. He is also a member of its Executive Committee and chairman of its Endowment Committee. He has been named the 2011 Chairman of the United Way annual campaign for Chattanooga. Additionally, Tom has also been involved in supporting initiatives in

the Chattanooga community, such as "Project Ready for School" and the anticipated rollout of "Success by 21."

Tom is dedicated to making sure the youth employed at his stores succeed, and his involvement with community organizations, specifically the United Way of Greater Chattanooga, demonstrate his commitment to ensure that youth are prepared and ready for work. He learned at Ace the importance of giving back to the community. He says, "Our business has been solid through this tough economy, and whereas some businesses have prudently stepped back during these times, it's up to others like us to step up... With a culture of helpfulness in the stores, it just makes sense for us to extend the same philosophy outside our four walls and into the community."



Introducing Ace Hardware International Holdings, Ltd.

Late in 2010, Ace announced the restructuring of the international division into a new stand-alone legal entity. Ace currently does business in approximately sixty countries and believes there are additional opportunities for growth, both in the countries currently served and in new territories. Ace's international retailers also believe in this direction and were willing to contribute additional capital to help grow this business.

Ace believes it can significantly grow its business with existing customers via third-party distribution centers in key countries that will improve product offerings and availability. Growth can also come from new customers, new countries, and improved import opportunities related to supply chain improvements.

The formation of Ace Hardware International Holdings, Ltd., was completed in January 2011. The new company has its own management team and board of directors. Ace Hardware Corporation is the majority-owner investor, with approximately 77 percent ownership while international retailers hold the remaining 23 percent. This unique approach creates tremendous alignment with our retailers outside of the U.S.

Benefits to the domestic shareholder include:

- Growth and thus increased purchasing scale
- Enhanced global brand building
- Improved sourcing opportunities through greater import scale and potentially lower cost of goods
- Potential for improved financial strength for the Ace cooperative

Ace has successfully launched the international division as a stand-alone subsidiary with its own management team and board of directors. With expansion into new countries overseas, Ace's neighborhood is the world!





Ace is There, No Matter What

Costello's Ace Hardware

When natural disasters hit, Ace goes the distance for our local neighborhoods, recognizing that during times of stress, our customers need us even more.

MICHAEL COSTELLO, COSTELLO'S ACE HARDWARE

When Tropical Storm Irene hit the East Coast in August 2011, Costello's Ace Hardware in Neconset, like many stores, lost power. But it didn't close, and it didn't lose business, because president Michael Costello was determined to keep the Neconset location and his other seventeen stores stocked for customers.

In fact, the Friday and Saturday before the storm hit was the Neconset store's busiest weekend ever. The staff helped 1,300 customers on Friday, a big jump from the normal 300 customers that come in. Even with an early close at 5:00 p.m., another 1,000 customers came in on Saturday to purchase supplies such as propane tanks, flashlights, batteries, tarps, extension cords, generators, and rolls of tape. The store opened up again Sunday afternoon with a generator to run the registers. With the power out, the employees personally escorted customers, one-by-one, down each aisle as a safety precaution. It's all part of the Ace philosophy and that of the founder, Vinnie Costello, who taught his children and employees the importance of taking care of customers. "Treat them like family," he always said.

The Costello's Ace Hardware story began back in 1976 in the midst of a challenging recession. Vinnie Costello was forced to close his air conditioning and heating contracting business. Looking for a means to support his wife and ten children, he stumbled upon a business opportunity, a retail hardware store. It was a small,



neglected, understocked store of barely over 2,000 square feet located in Deer Park, New York. With no previous retail experience and no other options, Vinnie courageously embarked on a journey that few would ever have dared. Sales were dismal and the store was in desperate need of attention, but after five years of hard work, the store was profitable.

While most would have been satisfied with this miraculous feat, Vinnie was determined to grow beyond that one small store.

Over the years, more stores were added, and today there are eighteen Costello Ace Hardware stores. Costello's Ace Hardware in Neconset was his third location, and even though it was in a little-known town, Vinnie thought the residents there would respond well to a neighborhood hardware store. The 4,000-square-foot store was an instant success, managing to be profitable from day one. The Costello family valued its customers then, and it values them now, proven by going the extra mile to help them through the hardship of Irene.

Dennis Coco, Rio Grande Ace Hardware

In early 2011, New Mexico had record cold temperatures of -20 degrees, with Taos dropping to -36 degrees.

In addition, there was a natural gas power outage, causing the governor to declare a state of emergency for all of New Mexico. With local stores selling out of much-needed supplies, Dennis Coca of Rio Grande Ace Hardware reacted quickly. He arranged to have a truck travel to Colorado Springs


on a Sunday night to pick up 3,500 space heaters and thousands of dollars worth of plumbing and electrical supplies, heat tape, etc. Driving through a snowstorm and experiencing other delays, the truck finally arrived after midnight to the relief of the waiting crowd – who by this time had been invited to move from the parking lot into the store where it was slightly warmer. The store stayed open until 3:00 a.m. to hand out supplies, and reopened the next morning to another desperate crowd. This was an incredible team effort by Dennis Coco and his general manager, Sean Walker.






Rio Grande, New Mexico





Colorado Springs, Colorado



Ace Hardware Board of Directors



▶ Standing Left to Right

John M. Patricia
Member Director, Payson, AZ

Jim Ackroyd
Member Director, Naples, FL

John Costello
Non-Member Director, Atlanta, GA

Lori Terpstra
Member Director, Grand Rapids, MI

Gina Schaefer
Member Director, Washington, D.C.

Todd Steadman
Member Director, Miles City, MT

James Hatcher
Member Director, Richmond, VA

Seated Left to Right

Jeff Girard
Non-Member Director, Jacksonville, FL

David Ziegler
Chairman of the Board, Elgin, IL

David Karsten
Member Director, Cave Creek, AZ

Ace Hardware Officer Team



▶ Standing Left to Right

Erik Gast
Vice President, Finance

Tom Knox
Vice President, Retail and Business Development

Rick Whitson
Vice President, Retail Support

Julie Browning
Vice President, General Counsel and Secretary

Pete Ting
Vice President, Treasury and International Finance

Jimmy Alexander
Senior Vice President, Human Resources
and Communications

John Surane
Senior Vice President, Merchandising, Advertising,
Marketing and Paint

Ray A. Griffith
President and CEO

Seated Left to Right

Kane Calamari
Vice President, Retail Operations and New Business

John Venhuizen
Chief Operating Officer

Lori Bossmann
Senior Vice President, Supply Chain and Retail Support

Mike Elmore
Chief Information Officer



A Year of Solid Results

2011 was a year of many successes for Ace Hardware, a year of solid results. Ace is blessed with caring people throughout the organization – our retailers truly embody what successful small businesses can accomplish and contribute throughout the world. Good people create good momentum, and 2012 promises to be an even better year!



Ace Hardware Corporation

2200 Kensington Court | Oak Brook, IL 60523

WWW.ACEHARDWARE.COM