ACE HARDWARE CORPORATION
Quarterly report for the period ended July 1, 2023

ACE HARDWARE CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Review Report of Independent Auditors

The Board of Directors
Ace Hardware Corporation

Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated interim financial statements of Ace Hardware Corporation (the Company), which comprise the consolidated balance sheets as of July 1, 2023 and July 2, 2022, and the related consolidated statements of income and comprehensive income for the three- and six-month periods ended July 1, 2023 and July 2, 2022, and the consolidated statements of equity and cash flows for the six-month periods ended July 1, 2023 and July 2, 2022, and the related notes (collectively referred to as the "interim financial information").

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Basis for Review Results

We conducted our review in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

Report on Balance Sheet as of December 31, 2022

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of income, comprehensive income, consolidated statement of equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 14, 2023. In our opinion, the accompanying consolidated balance sheet of the Company as of December 31, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Ernst + Young LLP

Chicago, Illinois
August 15, 2023

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, in millions)

	Three Months Ended		Six Months Ended	
	July 1, 2023 (13 Weeks)	**July 2, 2022 (13 Weeks)**	**July 1, 2023 (26 Weeks)**	**July 2, 2022 (26 Weeks)**
Revenues:				
Wholesale revenues	$ 2,371.9	$ 2,275.0	$ 4,309.9	$ 4,332.0
Retail revenues	260.7	258.0	408.9	414.6
Total revenues	2,632.6	2,533.0	4,718.8	4,746.6
Cost of revenues:				
Wholesale cost of revenues	2,048.3	1,987.7	3,733.7	3,782.7
Retail cost of revenues	148.1	143.5	226.3	227.1
Total cost of revenues	2,196.4	2,131.2	3,960.0	4,009.8
Gross profit:				
Wholesale gross profit	323.6	287.3	576.2	549.3
Retail gross profit	112.6	114.5	182.6	187.5
Total gross profit	436.2	401.8	758.8	736.8
Wholesale operating expenses:				
Distribution operations expenses	70.6	64.6	137.1	126.1
Selling, general and administrative expenses	72.4	56.6	139.6	113.8
Retailer success and development expenses	80.5	66.7	124.7	109.4
Retail operating expenses	70.7	81.1	140.9	148.9
Retail pre-opening expenses	1.0	0.5	2.4	0.7
Total operating expenses	295.2	269.5	544.7	498.9
Operating income	141.0	132.3	214.1	237.9
Interest expense	(10.8)	(4.4)	(17.1)	(8.4)
Interest income	1.0	0.4	2.3	1.0
Other (expense) income, net	(3.2)	-	(2.5)	22.7
Income tax expense	(1.3)	(3.5)	(3.9)	(8.6)
Net income	126.7	124.8	192.9	244.6
Less: net loss attributable to noncontrolling interests	(0.2)	(0.1)	(0.6)	(0.4)
Net income attributable to Ace Hardware Corporation	$ 126.9	$ 124.9	$ 193.5	$ 245.0
Patronage distributions accrued	$ 116.7	$ 111.7	$ 205.1	$ 247.3
Patronage distributions accrued for third party Retailers	$ 111.4	$ 106.4	$ 195.2	$ 237.3

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, in millions)

	Three Months Ended		Six Months Ended	
	July 1, 2023 (13 Weeks)	**July 2, 2022 (13 Weeks)**	**July 1, 2023 (26 Weeks)**	**July 2, 2022 (26 Weeks)**
Net income	$ 126.7	$ 124.8	$ 192.9	$ 244.6
Other comprehensive income (loss), net of tax:				
Foreign currency translation	0.7	(0.3)	1.9	-
Unrealized gain (loss) on available-for-sale debt securities	0.3	(2.3)	0.6	(4.7)
Total other comprehensive income (loss), net	1.0	(2.6)	2.5	(4.7)
Comprehensive income	127.7	122.2	195.4	239.9
Less: Comprehensive loss attributable to noncontrolling interests	-	(0.1)	(0.2)	(0.4)
Comprehensive income attributable to Ace Hardware Corporation	$ 127.7	$ 122.3	$ 195.6	$ 240.3

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	July 1, 2023 (Unaudited)	December 31, 2022 (Audited)	July 2, 2022 (Unaudited)
Assets			
Cash and cash equivalents	$ 50.6	$ 28.5	$ 48.8
Marketable securities	52.1	53.3	52.8
Receivables, net of allowance for doubtful accounts of $9.0, $7.0 and $5.8, respectively	845.9	650.8	827.6
Inventories	1,376.4	1,303.7	1,533.3
Prepaid expenses and other current assets	60.1	59.7	59.8
Total current assets	2,385.1	2,096.0	2,522.3
Property and equipment, net	510.8	463.6	451.6
Operating lease right-of-use assets, net	669.9	613.8	616.9
Finance lease right-of-use assets, net	120.4	84.2	80.4
Goodwill and other intangible assets, net	405.7	105.7	93.8
Other assets	153.4	127.7	115.2
Total assets	$ 4,245.3	$ 3,491.0	$ 3,880.2
Liabilities and Equity			
Current maturities of long-term debt	$ 18.6	$ 15.1	$ 13.6
Accounts payable	1,598.6	1,165.5	1,503.8
Patronage distributions payable in cash	80.3	133.1	97.6
Patronage refund certificates payable	23.0	23.1	27.2
Current operating lease liabilities	73.7	77.0	70.4
Current finance lease liabilities	21.4	17.2	14.0
Accrued expenses	221.4	299.5	213.6
Total current liabilities	2,037.0	1,730.5	1,940.2
Long-term debt	311.3	23.0	214.9
Patronage refund certificates payable	134.5	111.3	111.6
Long-term operating lease liabilities	621.2	562.4	571.7
Long-term finance lease liabilities	98.3	67.6	65.4
Other long-term liabilities	112.0	104.4	96.8
Total liabilities	3,314.3	2,599.2	3,000.6
Member Retailers' Equity:			
Class A voting common stock, $1,000 par value, 10,000 shares authorized, 2,649, 2,662 and 2,675 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, $100 par value, 10,000,000 shares authorized, 7,420,294, 6,561,209 and 6,753,381 issued and outstanding, respectively	742.0	656.1	675.3
Class C nonvoting common stock, $100 par value, issuable to Retailers for patronage distributions, 706,506, 1,181,824 and 981,230 shares issuable, respectively	70.7	118.1	98.2
Contributed capital	19.1	19.2	19.0
Retained earnings	85.9	87.2	76.7
Accumulated other comprehensive loss	(0.2)	(2.3)	(3.7)
Equity attributable to Ace member Retailers	920.2	881.0	868.2
Equity attributable to noncontrolling interests	10.8	10.8	11.4
Total equity	931.0	891.8	879.6
Total liabilities and equity	$ 4,245.3	$ 3,491.0	$ 3,880.2

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited, in millions)

	Shareholders of Ace Hardware Corporation								
	Capital Stock								
	Class A	Class C	Class C Stock Issuable to Retailers for Patronage Dividends	Additional Stock Subscribed	Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balances at January 1, 2022	$ 2.7	$ 583.8	$ 120.9	$ -	$ 19.1	$ 68.9	$ 1.0	$ 11.7	$ 808.1
Net income (loss)	-	-	-	-	-	245.0	-	(0.4)	244.6
Other comprehensive loss	-	-	-	-	-	-	(4.7)	-	(4.7)
Net payments on subscriptions	-	-	-	1.0	-	-	-	-	1.0
Stock issued	0.1	120.3	(120.9)	(1.0)	-	0.2	-	-	(1.3)
Change in noncontrolling interests	-	-	-	-	(0.1)	(0.1)	-	0.1	(0.1)
Stock repurchased	(0.1)	(28.8)	-	-	-	-	-	-	(28.9)
Patronage distributions issuable	-	-	98.2	-	-	-	-	-	98.2
Patronage distributions payable	-	-	-	-	-	(237.3)	-	-	(237.3)
Balances at July 2, 2022	$ 2.7	$ 675.3	$ 98.2	$ -	$ 19.0	$ 76.7	$ (3.7)	$ 11.4	$ 879.6
Balances at December 31, 2022	$ 2.7	$ 656.1	$ 118.1	$ -	$ 19.2	$ 87.2	$ (2.3)	$ 10.8	$ 891.8
Net income (loss)	-	-	-	-	-	193.5	-	(0.6)	192.9
Other comprehensive income	-	-	-	-	-	-	2.5	-	2.5
Net payments on subscriptions	-	-	-	0.7	-	-	-	-	0.7
Stock issued	-	116.2	(118.1)	(0.7)	-	0.4	-	-	(2.2)
Change in noncontrolling interests	-	-	-	-	(0.1)	-	(0.4)	0.6	0.1
Stock repurchased	-	(30.3)	-	-	-	-	-	-	(30.3)
Patronage distributions issuable	-	-	70.7	-	-	-	-	-	70.7
Patronage distributions payable	-	-	-	-	-	(195.2)	-	-	(195.2)
Balances at July 1, 2023	$ 2.7	$ 742.0	$ 70.7	$ -	$ 19.1	$ 85.9	$ (0.2)	$ 10.8	$ 931.0

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	Six Months Ended	
	July 1, 2023 (26 Weeks)	July 2, 2022 (26 Weeks)
Operating Activities		
Net income	$ 192.9	$ 244.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42.4	46.6
Non cash lease expense	12.7	7.7
Amortization of deferred financing costs	0.8	0.2
Loss (gain) on the disposal of assets, net	3.1	(21.7)
Provision for doubtful accounts	3.1	2.1
Other, net	1.7	4.0
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(215.6)	(328.2)
Inventories	(66.1)	(308.4)
Other current assets	1.3	4.0
Other long-term assets	(11.3)	(3.4)
Accounts payable and accrued expenses	361.7	365.7
Other long-term liabilities	5.0	5.8
Deferred taxes	(0.5)	0.5
Net cash provided by operating activities	331.2	19.5
Investing Activities		
Purchases of investment securities	(25.7)	(7.8)
Proceeds from sale of investment securities	26.6	6.8
Purchases of property and equipment	(77.7)	(45.5)
Cash paid for acquired businesses, net of cash received	(306.0)	(1.0)
Increase in notes receivable, net	(12.9)	(9.3)
Proceeds from sale of assets	0.1	28.3
Other, net	(0.3)	(1.1)
Net cash used in investing activities	(395.9)	(29.6)
Financing Activities		
Net borrowings under revolving lines of credit	280.0	186.9
Principal payments on long-term debt	(7.3)	(6.1)
Payments of debt issuance costs	(4.4)	-
Principal portion of finance lease payments	(15.3)	(8.3)
Payments of cash portion of patronage distribution	(133.1)	(121.0)
Payments of patronage refund certificates	(26.7)	(25.9)
Repurchase of stock	(6.6)	(4.8)
Purchase of noncontrolling interests	(0.3)	(0.4)
Other, net	0.5	0.9
Net cash provided by financing activities	86.8	21.3
Increase in cash and cash equivalents	22.1	11.2
Cash and cash equivalents at beginning of period	28.5	37.6
Cash and cash equivalents at end of period	$ 50.6	$ 48.8
Supplemental disclosure of cash flow information:		
Interest paid	$ 14.6	$ 8.0
Income taxes paid	$ 1.9	$ 1.0

See accompanying notes to the consolidated financial statements.

(1) Summary of Significant Accounting Policies

The Company and Its Business

Ace Hardware Corporation ("the Company") is a wholesaler of hardware, paint and other related products. The Company also provides to its retail members ("Retailers") 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 Retailers based on their volume of merchandise purchases.

Ace Hardware International Holdings, Ltd. ("AIH"), is a majority-owned and controlled subsidiary of the Company with a 21.4 percent noncontrolling interest held by AIH customers. AIH shareholders do not own shares of stock in the Company nor receive patronage dividends.

Ace Retail Holdings LLC ("ARH") is the owner of the 166-store Westlake Ace Hardware ("Westlake") and the 65-store Great Lakes Ace Hardware ("GLA") retail chains. As a result, the Company is also a retailer of hardware, paint and other related products.

Ace Wholesale Holdings LLC ("AWH") owns and operates Emery Jensen Distribution. AWH is a wholesaler of hardware, paint and other related products to non-member retailers.

Ace Services Holdings LLC ("ASH"), through its subsidiaries, operates Ace Handyman Services, a franchisor of home improvement, maintenance and repair services, Ace Hardware Painting Services, a provider of home painting services and Legacy Plumbing, Inc. and Ace Hardware Plumbing Services, providers of residential plumbing services. On April 12, 2023, a newly-formed subsidiary of ASH merged with Unique Indoor Comfort Holdings, LLC ("UICH"), with Ace Heating and Cooling Services, LLC ("AHCS") being the surviving entity. On May 3, 2023, a subsidiary of AHCS, Unique Indoor Comfort, LLC ("UIC"), acquired Parrish Services, Inc. ("Parrish"). UIC owns thirteen companies in the plumbing, heating, cooling and electric residential services industry. See Note 2 for additional details regarding the acquisitions.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited consolidated financial statements and notes should be read in conjunction with the financial statements and notes thereto included in the Company's 2022 Annual Report. The unaudited consolidated financial statements for the three and six months ended July 1, 2023 and July 2, 2022 both cover a 13-week and 26-week period, respectively.

Subsequent events have been evaluated through August 15, 2023, 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 for the interim periods presented. The results of operations for the three and six months ended July 1, 2023 are not necessarily indicative of the results to be expected for the full fiscal year 2023.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany transactions have been eliminated.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current financial statement presentation, with no net effect on the consolidated financial statements.

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.

Allowance for Expected Credit Losses

The Company estimates an allowance for credit losses related to future expected losses by using relevant information such as historical collection statistics, current customer credit information, the current economic environment, the aging of receivables, the evaluation of compliance with lending covenants and the offsetting amounts due to Retailers for stock, notes, interest and anticipated but unpaid patronage distributions. Significant past due accounts are reserved on a specific identification basis. For the remainder of the accounts, the allowance is evaluated on a pool basis for accounts with similar risk characteristics and a loss-rate for each pool is determined using current conditions and historical credit loss statistics. The Company considers accounts and notes receivable past due if invoices remain unpaid past their due date and provides for the write-off of uncollectible receivables after exhausting all commercially reasonable collection efforts.

Revenue Recognition

Revenue is recognized when performance obligations under the terms of contracts with our customers are satisfied; generally, this occurs with the transfer of control of merchandise or services. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The Company excludes sales and usage-based taxes collected and recognizes revenues net of expected returns. Provisions for sales returns are provided at the time the related sales are recorded based on historic returns activity.

The Company's warehouse merchandise revenue originates with a single performance obligation to ship the products, and therefore the Company's performance obligations are satisfied when control of the products is transferred to the customer per the arranged shipping terms. The customer takes ownership and assumes risk of loss for warehouse merchandise upon delivery. Although products are generally shipped FOB shipping point, the Company effectively retains the responsibilities of ownership until the goods reach the customer. The Company considers shipping and handling as activities to fulfill its performance obligation for warehouse merchandise revenues. Billings for freight are accounted for as Revenues and shipping and handling costs are accounted for in Cost of revenues.

Service revenues (advertising activities, brand building initiatives and fees for other services provided primarily to domestic Retailers) are recognized when the service is complete as this is when the Retailer has the ability to direct the use of and obtain the benefits from the service. Service revenues from the Company's residential home service businesses are recognized when the repair or installation is complete and the consumer has tendered payment. Service revenues are included in wholesale revenues on the Consolidated Statements of Income.

The Company has direct shipment arrangements with various vendors to deliver products to its customers without having to physically hold the inventory at the Company's warehouses, thereby increasing efficiency and reducing costs. The Company recognizes revenue for direct shipment arrangements upon delivery to the customer with contract terms that typically specify FOB destination. The Company recognizes the revenue and cost of goods sold from these arrangements on a gross basis as the principal in the transaction. The Company is primarily responsible for fulfilling the promise to customers to provide merchandise at negotiated prices with the vendors, assumes inventory risk if the product is returned by the customers, and assumes all the credit risk for the vendors with the customers.

Retail revenues from retail locations owned and operated by the Company and e-commerce revenues are recognized when the customer takes ownership of the products sold and assumes the risk of loss. The customer takes ownership and assumes risk of loss generally at the point of sale in our owned retail locations. The Company's e-commerce revenues come from Ace Hardware's website. For e-commerce transactions, customers choose whether to have merchandise delivered to them (using third-party parcel delivery companies) or to collect their merchandise from one of our stores ("in-store pick up"). For items delivered directly to the customer, control passes and revenue is recognized when delivery has been completed to the customer, as title has passed and we have transferred possession to the customer. For in-store pick up, control passes and revenue is recognized once the customer has taken possession of the merchandise. Any fees charged to customers for delivery are a component of the transaction price and are recognized when delivery has been completed. Payment terms for retail and e-commerce sales are at the point of sale.

The Company offers its Retailers various incentive programs which provide the Retailers with certain sales allowances. The Company offers these incentive programs in anticipation of future sales to the Retailers that participate in these programs. Since the sales allowances provide future economic benefit to the Company, they are capitalized in Other assets and amortized as a reduction of revenue on a straight-line basis over the period of expected future sales to these Retailers, which is generally five years.

Impact of New Accounting Standards

Recently issued accounting pronouncements that are not yet effective and that were not discussed below are either inapplicable to the Company or, if applicable, the Company does not expect that they will have a material impact on consolidated results of operations, consolidated financial condition, or consolidated cash flows.

(Unaudited, in millions)

New Accounting Pronouncements - Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" along with amendments issued in 2018. The guidance requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. The amortized cost basis of financial assets should be reduced by expected credit losses to present the net carrying value in the financial statements at the amount expected to be collected. The measurement of expected credit losses is based on past events, historical experience, current conditions and forecasts that affect the collectability of the financial assets. Additionally, credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. On December 31, 2022, the Company adopted ASU 2016-13. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements other than additional disclosures. See Note 4 and Note 5 for the new disclosures.

(2) Acquisitions, Dispositions and Closure Activities

On April 12, 2023, a newly-formed subsidiary of ASH merged with UICH, with AHCS being the surviving entity. On May 3, 2023, a subsidiary of AHCS, UIC, acquired Parrish. UIC owns thirteen companies in the plumbing, heating, cooling and electric residential services industry. Total merger and acquisition consideration paid by the Company was $309.7 million (subject to final working capital adjustments). The Company believes that the merger and acquisition will help advance the Company's strategic plan to be a leading provider of home preservation services.

The company accounts for all business combinations using the acquisition method to record a new cost basis for the assets acquired and liabilities assumed. The difference between the purchase price and the fair value of the assets acquired and liabilities assumed has been recorded as goodwill in the financial statements. The results of operations are reflected in the consolidated financial statements of the company from the dates of acquisition.

As of July 1, 2023, the Company recorded a preliminary allocation of the purchase price to acquired tangible assets and liabilities assumed based on their estimated fair value at the acquisition date. The company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the company is waiting for additional information necessary to finalize those fair values. Specifically, the Company is finalizing the fair value of acquired intangible assets. Thus, the provisional measurements of fair values set forth below are subject to change. The Company expects to complete the purchase price allocation by the end of fiscal 2023. Goodwill has an indefinite life and, therefore, is not amortized. The goodwill allocated to UIC's disregarded entities is expected to be deductible for tax purposes.

The following table summarizes the consideration paid and the preliminary purchase price allocation at the acquisition date:

Fair value of assets acquired and liabilities assumed:	
Cash	$ 6.0
Receivables	5.3
Inventories	5.6
Other current assets	1.6
Property and equipment	9.6
Goodwill and other intangibles	299.3
Other long-term assets	5.9
Accounts payable	(3.4)
Other current liabilities	(12.5)
Other long-term liabilities	(7.7)
Acquisition purchase price	$ 309.7

In addition, during the six months ended July 1, 2023, ARH acquired additional retail stores for consideration of $2.3 million, prior to working capital adjustments. These acquisitions resulted in ARH recording $1.2 million of goodwill. During the six months ended July 2, 2022, ARH acquired a retail store for consideration of $1.0 million, prior to working capital adjustments. This acquisition resulted in ARH recording $0.3 million of goodwill. The goodwill is expected to be deductible for tax purposes.

During the six months ended July 2, 2022, the Company determined that The Grommet business model was no longer viable and announced the closure of The Grommet. Business operations ceased during the third quarter of 2022. As a result of the closure, non-recurring charges of $10.8 million were recorded during the second quarter of 2022, including a $0.9 million charge for the write-down of inventory and a $9.9 million charge for the impairment of assets and severance related costs.

(Unaudited, in millions)

During the six months ended July 2, 2022, the Company sold its Gainesville, Georgia retail support center (“RSC”) for proceeds of $27.1 million and recorded a pre-tax gain of $21.7 million which is presented in Other income, net in the Consolidated Statements of Income. The Company has leased-back this RSC on a short-term basis until construction of the replacement RSC in Jefferson, Georgia is complete.

(3) Leases

The Company leases certain warehouse and distribution space, office space, retail locations, equipment and vehicles under finance and operating leases. The Company determines if an arrangement is a lease at inception and recognizes a lease liability and right-of-use (“ROU”) asset in the Company’s Consolidated Balance Sheets upon commencement of a lease. Operating and finance lease assets represent the right to use an underlying asset for the lease term. Operating and finance lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are recognized based on the present value of future payments over the lease term at commencement date which is the date the Company takes possession or control of the property or equipment.

The future minimum undiscounted lease payments under operating leases were $790.6 million and $708.8 million as of July 1, 2023 and December 31, 2022, respectively. The future minimum undiscounted lease payments under finance leases were $127.7 million and $88.2 million as of July 1, 2023 and December 31, 2022, respectively.

During the six months ended July 1, 2023 the Company recorded $103.2 million of operating ROU assets and $48.8 million of finance ROU assets and associated new lease liabilities. The increase in operating ROU assets was primarily due to the addition of the new corporate office in Oak Brook, Illinois and the modification of existing leases. The increase in finance ROU assets was primarily due to the addition of the racking systems for the Visalia, CA, and Jefferson, GA, RSCs, as well as the replacement of expiring truck leases which are generally renewed every five to seven years.

Additionally, the Company has excluded approximately $184.4 million of payments (undiscounted basis) for leases that have not yet commenced. These leases will commence between the third quarter of 2023 and the second quarter of 2024 with terms of up to fifteen years and will include a new RSC in Kansas City, MO and new stores for Westlake.

(4) Receivables, net

The Company’s receivables consist primarily of trade receivables from customers for the sale of merchandise, services and equipment and receivables from the Company’s vendors for incentive and marketing programs.

Receivables, net include the following amounts:

	July 1, 2023	December 31, 2022	July 2, 2022
Trade	$ 707.5	$ 499.2	$ 696.9
Vendor	121.9	121.1	121.5
Other	8.6	17.9	12.1
Notes receivable – current portion	16.9	19.6	2.9
Less allowance for doubtful accounts	(9.0)	(7.0)	(5.8)
Receivables, net	$ 845.9	$ 650.8	$ 827.6

(Unaudited, in millions)

The components of changes to the Receivable allowance for doubtful accounts for the six months ended July 1, 2023 and July 2, 2022 were as follows:

	July 1, 2023	July 2, 2022
Beginning balance	$ 7.0	$ 4.3
Charges to provision	2.0	2.4
Accounts written off, net of recoveries	(0.1)	(0.9)
Other	0.1	-
Ending balance	$ 9.0	$ 5.8

(5) Notes Receivables, net

The Company makes available to its Retailers various lending programs whose terms exceed one year. At July 1, 2023, December 31, 2022 and July 2, 2022, the outstanding balance of the notes was $23.7 million, $19.7 million and $7.6 million, respectively, of which the current portion of $16.9 million, $19.6 million and $2.9 million, respectively, was recorded in Receivables, net and the long-term portion of $5.7 million, $0.1 million and $4.0 million, respectively, was recorded in Other assets.

	July 1, 2023	December 31, 2022	July 2, 2022
Notes receivable, gross	$ 41.7	$ 48.1	$ 28.7
Less accrued patronage to be applied	(18.0)	(28.4)	(21.1)
Net of accrued patronage	23.7	19.7	7.6
Less current portion of notes receivable included in Receivables, net	(16.9)	(19.6)	(2.9)
Less allowance for doubtful accounts	(1.1)	-	(0.7)
Notes receivable, net	$ 5.7	$ 0.1	$ 4.0

For substantially all of the Company's Notes receivable, the amounts due are generally expected to be collected through the non-cash portion of the following year's annual patronage distribution and are therefore classified as current. In the event a Retailer cancels its membership with the Company, any outstanding loans are transferred from Notes receivable to Accounts receivable and are due immediately. As the non-cash portion of the patronage distribution is used to settle the Notes receivable, there are no loans that are currently past due. The patronage distribution for each Retailer can vary from year to year based on the Company's financial performance as well as the volume of patronage-based merchandise that each Retailer purchases from the Company. The contractual maturities, assuming no patronage deductions, of the Notes receivable are as follows:

	July 1, 2023	December 31, 2022	July 2, 2022
0 – 4 years	$ 14.4	$ 9.0	$ 9.6
5 – 8 years	10.1	20.8	8.3
9 – 12 years	17.2	18.3	10.8
Total	$ 41.7	$ 48.1	$ 28.7

The Company evaluates risk on its loan portfolio by categorizing each loan into an internal risk category and uses this as a key credit quality indicator. The Company's internal risk categories are as follows:

Low – The Retailer possesses a strong financial position, above average payment record to both Ace and other vendors, and the business is well established.

Medium – The Retailer possesses an average financial position, an average payment record to both Ace and other vendors, and the business is somewhat established.

High – The Retailer possesses a weak financial position, a substandard payment record to Ace or other vendors, or the business is somewhat new.

(Unaudited, in millions)

Based upon these criteria, the Company has classified its loan portfolio as follows:

Corporate Credit Exposure:	July 1, 2023	December 31, 2022	July 2, 2022
Low risk	$ 17.0	$ 16.7	$ 9.6
Moderate risk	11.7	15.4	10.9
High risk	13.0	16.0	8.2
Total	$ 41.7	$ 48.1	$ 28.7

Pursuant to the Company's Amended and Restated Certificate of Incorporation and the Company's by-laws, notes receivable (like all obligations owed to the Company by the Company's Retailers) are secured by the Company stock owned by the Retailers. For this reason, as well as the fact that substantially all of the notes receivable are repaid from the following year's annual patronage distribution, the actual risk of collection is low for the notes receivable portfolio despite many Retailers being classified as Moderate and High risk.

The Company applies a consistent practice of establishing an allowance for notes that it feels may become uncollectible by monitoring the financial strength of its Retailers. The collectability of certain notes is evaluated on an individual basis while the remaining notes are evaluated on a collective basis. Due to the nature of the notes and the collateral held by the Company, virtually all outstanding notes were collectively evaluated for impairment.

The Company has evaluated the collectability of the notes and has established an allowance for doubtful accounts of $1.1 million, $0.0 million and $0.7 million for July 1, 2023, December 31, 2022 and July 2, 2022, respectively. Management records the allowance for doubtful accounts based on the above information as well as judgments made considering a number of factors, primarily historical collection statistics, current Retailer credit information, the current economic environment and the offsetting amounts due to Retailers for stock, notes, interest and declared and unpaid patronage distributions. The components of changes to the Notes receivable allowance for doubtful accounts for the six months ended July 1, 2023 and July 2, 2022 were as follows:

	July 1, 2023	July 2, 2022
Beginning balance	$ -	$ 1.0
Charges to provision (reversals)	1.1	(0.3)
Ending balance	$ 1.1	$ 0.7

Notes bear interest at various rates and are recorded at face value. Interest is recognized over the life of the note based on the outstanding balance and stated interest rate, which approximates the effective interest method. During the six months ended July 1, 2023 and July 2, 2022, $2.0 million and $0.8 million respectively, were recorded as interest income related to the notes.

Generally, in the event a Retailer cancels their membership with the Company, any outstanding Notes receivable, and related allowance for doubtful accounts, are transferred to trade receivables and the Retailer is billed for any unpaid principal and interest balances. During the six months ended July 1, 2023 and July 2, 2022, $3.7 million and $7.9 million, respectively, of Notes receivable were transferred to trade receivables as an event occurred which made the notes due immediately.

(6) Inventories

Inventories consist of wholesale merchandise inventories held for sale to customers and ASH home service locations and retail merchandise inventory held for resale at ARH retail locations. Substantially all of the Company's wholesale inventories are valued on the last-in, first-out ("LIFO") method. The excess of replacement cost over the LIFO value of inventory was $273.9 million, $273.9 million and $205.3 million at July 1, 2023, December 31, 2022 and July 2, 2022, respectively. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at the time. Interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory valuation. Inventories at retail locations are valued at the lower of cost or net realizable value. Inventory cost is determined using the moving average method, which approximates the first-in, first-out ("FIFO") method. The Company regularly reviews its inventory and establishes a reserve for excess and obsolete inventory based on a number of factors, including historical sales, sales forecasts, obsolescence due to technology changes and defective goods.

(Unaudited, in millions)

Inventories consisted of:

	July 1, 2023	December 31, 2022	July 2, 2022
Wholesale merchandise inventory (LIFO)	$ 1,141.5	$ 1.076.8	$ 1,313.5
Retail merchandise inventory at ARH stores (FIFO)	234.9	226.9	219.8
Inventories	$ 1,376.4	$ 1,303.7	$ 1,533.3

(7) Debt

On January 24, 2023, the Company amended its existing credit facility. The January 2023 amendment extended the maturity from February 1, 2024 to January 24, 2028 and increased the capacity of the facility by $400.0 million to $1.1 billion. The facility is expandable to $1.4 billion through a $300.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide any portion of the increased facility. The amendment changed the benchmark for setting interest rates from the London Interbank Bank Offered Rate (“LIBOR”) to the Secured Overnight Financing Rate (“SOFR”) and borrowings under the amended credit facility now bear interest at a rate of either 25 to 100 basis points over the prime rate or 125 to 200 basis points over SOFR, depending on the Company’s leverage ratio. The credit facility was priced at SOFR plus 125 basis points and prime plus 25 basis points at July 1, 2023. Fees on the unused portion of the line of credit range from 17.5 to 27.5 basis points depending on the Company’s leverage ratio. All other terms of the credit facility remain unchanged. As of July 1, 2023, the Company was in compliance with its covenants and had $280.0 million in borrowings outstanding under the credit facility.

The credit facility includes a $175.0 million sublimit for the issuance of standby and commercial letters of credit. As of July 1, 2023, a total of $38.2 million in letters of credit were outstanding.

The credit facility allows the Company to make revolving loans and other extensions of credit to AIH in an aggregate principal amount not to exceed $100.0 million at any time. As of July 1, 2023, there were no loans or other extensions of credit provided to AIH.

The Company’s Westlake subsidiary has a $125.0 million asset-based revolving credit facility that expires on August 3, 2026 (“Westlake Facility”). The facility is expandable to $150.0 million through a $25.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide a portion of the increased facility. Under this facility, Westlake has the right to issue letters of credit up to a maximum of $7.5 million. Pursuant to an April 12, 2023 amendment, borrowings under this facility now bear interest at a rate of either the prime rate plus an applicable spread of 25 to 50 basis points or SOFR plus an applicable spread of 135 to 160 basis points, depending on Westlake’s average availability under the Westlake Facility as measured on a trailing 12-month basis. The Westlake Facility was priced at SOFR plus 135 basis points at July 1, 2023.

The Westlake Facility is collateralized by substantially all of Westlake’s tangible and intangible assets. Borrowings under the facility are subject to a borrowing base calculation consisting of certain advance rates applied to eligible collateral balances (primarily consisting of certain receivables and inventories). This agreement requires maintenance of certain financial covenants including a minimum fixed charge coverage ratio. As of July 1, 2023, ARH was in compliance with its covenants and had no borrowings outstanding under the Westlake Facility.

The Westlake Facility includes a lender-controlled cash concentration system that results in all of Westlake’s daily available cash being applied to the outstanding borrowings under their facility. Pursuant to FASB Accounting Standards Codification Section 470-10-45, “Classification of Revolving Credit Agreements Subject to Lock-Box Arrangements and Subjective Acceleration Clauses,” all borrowings under the Westlake Facility are classified as a Current maturity of long-term debt.

Total debt outstanding is comprised of the following:

	July 1, 2023	December 31, 2022	July 2, 2022
Revolving Credit Facility	$ 280.0	$ -	$ 191.8
Installment notes with maturities through 2027 at a fixed rate of 6.00%	49.9	38.1	36.7
Total debt	329.9	38.1	228.5
Less: maturities within one year	(18.6)	(15.1)	(13.6)
Long-term debt	$ 311.3	$ 23.0	$ 214.9

(Unaudited, in millions)

(8) Fair Value Measurements

The tables below set forth, by level, the Company's financial assets that were accounted for at fair value as of July 1, 2023, December 31, 2022 and July 2, 2022. 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. Long-term notes receivable approximate fair value because the Company charges its Retailers interest and a significant portion of the notes have the Company's stock as collateral.

Items measured at fair value on a recurring basis	Carrying Value Measured at Fair Value July 1, 2023	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	$ 5.6	$ 5.6	$ -	$ -
Marketable securities:				
Corporate fixed income securities	24.4	-	24.4	-
Mortgage-backed securities	15.3	-	15.3	-
U.S. government notes	5.0	4.6	0.4	-
Other	7.4	-	7.4	-
Total marketable securities	$ 52.1	$ 4.6	$ 47.5	$ -
Other assets:				
Money market funds	$ 2.3	$ 2.3	$ -	$ -
Fixed income mutual funds	11.5	11.5	-	-
Equity mutual funds	13.4	13.4	-	-
Total other assets	$ 27.2	$ 27.2	$ -	$ -

Items measured at fair value on a recurring basis	Carrying Value Measured at Fair Value December 31, 2022	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	$ 1.4	$ 1.4	$ -	$ -
Marketable securities:				
Corporate fixed income securities	27.8	-	27.8	-
Mortgage-backed securities	12.5	-	12.5	-
U.S. government notes	6.7	6.4	0.3	-
Other	6.3	-	6.3	-
Total marketable securities	$ 53.3	$ 6.4	$ 46.9	$ -
Other assets:				
Money market funds	$ 10.1	$ 10.1	$ -	$ -
Fixed income mutual funds	6.8	6.8	-	-
Equity mutual funds	8.4	8.4	-	-
Total other assets	$ 25.3	$ 25.3	$ -	$ -

(Unaudited, in millions)

Items measured at fair value on a recurring basis	Carrying Value Measured at Fair Value July 2, 2022	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	$ 3.8	$ 3.8	$ -	$ -
Marketable securities:				
Corporate fixed income securities	29.4	-	29.4	-
Mortgage-backed securities	7.3	-	7.3	-
U.S. government notes	9.9	9.3	0.6	-
Other	6.2	-	6.2	-
Total marketable securities	$ 52.8	$ 9.3	$ 43.5	$ -
Other assets:				
Money market funds	$ 7.7	$ 7.7	$ -	$ -
Fixed income mutual funds	3.0	3.0	-	-
Equity mutual funds	5.4	5.4	-	-
Total other assets	$ 16.1	$ 16.1	$ -	$ -

Level 1 – Investments included in this category are the Company's Fixed income mutual funds, Equity mutual funds, Money market funds and U.S. government notes. The Company's valuation techniques used to measure the fair values of these investments are derived from quoted market prices for identical instruments, as active markets for these instruments exist. The Company has classified its investments used to support the Company's deferred compensation plan as Other assets as these investments are restricted solely for this purpose.

Level 2 – Investments included in this category are the Company's Corporate fixed income securities, Mortgage-backed securities, U.S. government notes and Other debt securities. Other debt securities primarily consist of taxable municipal bonds, corporate asset-backed securities, and U.S. Agency fixed rate notes and bonds. The Company's valuation techniques used to measure the fair values of these securities are derived from the following: non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market 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 fair value of the Company's debt and equity securities was below cost by $2.5 million and $5.7 million at July 1, 2023 and July 2, 2022, respectively. The realized and unrealized gains and losses on equity securities are recorded to Other income, net and the realized gain or loss on debt securities are recorded in the period in which the gain or loss occurs to Other income, net in the Consolidated Statement of Income. Unrealized gains and losses on debt securities are recorded as a component of Other comprehensive income (loss), net of tax. The Company has not recorded an allowance due to the unrealized losses being driven by the market factors related to increasing interest rates as opposed to credit factors. All debt securities are expected to reach par value at their maturity dates.

Gross proceeds from the sale of money market, debt and equity securities and the related realized gains and losses for the three and six months ended July 1, 2023 and July 2, 2022 were as follows:

	Three Months Ended		**Six Months Ended**	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Gross proceeds	$ 18.6	$ 5.0	$ 26.6	$ 6.8
Gross realized gains	0.2	-	0.2	-
Gross realized losses	(0.8)	(0.4)	(0.8)	(0.4)

(Unaudited, in millions)

Gross realized gains and losses were determined using the specific identification method. For the six months ended July 1, 2023, the Company reclassified $0.1 million of unrealized gains and $0.7 million of unrealized losses on the marketable securities that were recorded in accumulated other comprehensive income as of December 31, 2022 into realized income. These amounts were recorded to Other income, net in the Consolidated Statement of Income.

The following table summarizes the contractual maturity distributions of the Company's debt securities at July 1, 2023. Actual maturities may differ from the contractual or expected maturities since borrowers may have the right to prepay obligations with or without prepayment penalties.

Fair value of available-for-sale debt securities	Due in One Year or Less	Due After One Year through Five Years	Due After Five Years through Ten Years	Due After Ten Years	Total
Corporate fixed income securities	$ 1.6	$ 8.5	$ 7.9	$ 6.4	$ 24.4
Mortgage-backed securities	-	0.2	0.2	14.9	15.3
U.S. government notes	-	3.3	1.0	0.7	5.0
Other	-	1.7	1.9	3.8	7.4
Total	$ 1.6	$ 13.7	$ 11.0	$ 25.8	$ 52.1

The Company's debt instruments are recorded at cost on the Consolidated Balance Sheets. The fair value of the Company's debt approximated its carrying value at July 1, 2023. The estimated fair value of long-term debt is based on estimated rates for similar instruments and discounted cash flow analysis using the Company's weighted-average interest rate and is, therefore, classified as Level 3 within the fair value hierarchy.

(9) Income Taxes

Income tax differs from the amount computed by applying the statutory U.S. Federal income tax rate of 21 percent to pre-tax income because of the effect of the following items:

	Three Months Ended		**Six Months Ended**	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Expected tax at U.S. Federal income tax rate	$ (26.9)	$ (27.0)	$ (41.3)	$ (53.2)
Patronage distribution deductions	23.4	22.3	41.0	49.8
Other, net	2.2	1.2	(3.6)	(5.2)
Income tax expense	$ (1.3)	$ (3.5)	$ (3.9)	$ (8.6)

(10) Supplemental Disclosures of Cash Flow Information

During the six months ended July 1, 2023 and July 2, 2022, accrued patronage distributions of $21.1 million and $22.7 million, respectively, were offset against trade receivables and notes receivable owed to the Company by its member Retailers with no net impact in the Consolidated Statements of Cash Flows.

During the six months ended July 1, 2023 and July 2, 2022, non-cash repurchases of stock from Retailers of $23.6 million and $24.0 million, respectively, were offset against trade receivables of $1.3 million and $4.5 million, respectively, and notes receivable of $3.2 million and $7.5 million, respectively. The remaining $19.1 million and $12.0 million, respectively, were primarily issued as notes payable with no net impact in the Consolidated Statements of Cash Flows.

During the six months ended July 1, 2023 and July 2, 2022, the Company received $15.6 million and $7.2 million, respectively, of property and equipment prior to quarter end and accrued for these items as no cash payments were made. These capital expenditures were not included in the Purchases of property and equipment in the Consolidated Statement of Cash Flows for the six months ended July 1, 2023 and July 2, 2022. During the six months ended July 1, 2023 and July 2, 2022, the Company paid $11.3 million and $7.8 million, respectively, for property and equipment that was purchased and accrued during the years ended December 31, 2022 and January 1, 2022. These capital expenditures were included in the Purchases of property and equipment in the Consolidated Statement of Cash Flows for the six months ended July 1, 2023 and July 2, 2022.

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

The following discussion and analysis summarizes the significant factors affecting the Company's consolidated operating results and financial condition during the three- and six-month periods ended July 1, 2023 and July 2, 2022. This discussion and analysis should be read in conjunction with the Company's 2022 Annual Report, as well as the consolidated financial statements (unaudited) and notes thereto contained in this report that have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). 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.

Results of Operations

Comparison of the Three Months Ended July 1, 2023 to the Three Months Ended July 2, 2022

The following data summarizes the Company's performance in 2023 as compared to 2022 (in millions):

	2023		2022		Favorable/ (Unfavorable)	
	$	% of Revenues*	$	% of Revenues*	$	%
Revenues:						
Wholesale revenues	2,371.9	90.1%	2,275.0	89.8%	96.9	4.3%
Retail revenues	260.7	9.9%	258.0	10.2%	2.7	1.0%
Total revenues	2,632.6	100.0%	2,533.0	100.0%	99.6	3.9%
Gross profit:						
Wholesale gross profit	323.6	13.6%	287.3	12.6%	36.3	12.6%
Retail gross profit	112.6	43.2%	114.5	44.4%	(1.9)	(1.7%)
Total gross profit	436.2	16.6%	401.8	15.9%	34.4	8.6%
Operating expenses:						
Wholesale operating expenses	223.5	9.4%	187.9	8.3%	(35.6)	(18.9%)
Retail operating expenses	70.7	27.1%	81.1	31.4%	10.4	12.8%
Retail pre-opening expenses	1.0	0.4%	0.5	0.2%	(0.5)	(100.0%)
Total operating expenses	295.2	11.2%	269.5	10.7%	(25.7)	(9.5%)
Operating income	141.0	5.4%	132.3	5.2%	8.7	6.6%
Interest expense	(10.8)	(0.5%)	(4.4)	(0.2%)	(6.4)	(145.5%)
Other expense, net	(3.3)	(0.1%)	(3.0)	(0.1%)	(0.3)	(10.0%)
Net income attributable to Ace Hardware Corporation	126.9	4.8%	124.9	4.9%	2.0	1.6%

*Wholesale gross profit and expenses are shown as a percentage of wholesale revenues. Retail gross profit and expenses are shown as a percentage of retail revenues. Non-operating items are shown as a percentage of total revenues.

A reconciliation of consolidated revenues follows (in millions):

	Amount	% Change vs. 2022
2022 Revenues	$ 2,533.0	
Wholesale Merchandise Revenues change based on new and cancelled domestic stores:		
Revenues increase from new stores added since January 2022	58.4	2.3%
Revenues decrease from stores cancelled since January 2022	(9.8)	(0.4%)
Increase in wholesale merchandise revenues to comparable domestic stores	11.7	0.5%
Decrease in wholesale service revenues	(0.4)	(0.0%)
Decrease in AWH wholesale revenues	(0.2)	(0.0%)
Decrease in AIH wholesale revenues	(3.7)	(0.2%)
Increase in ASH service revenues	22.9	0.9%
Increase in Acehardware.com revenues	18.3	0.7%
Increase in ARH retail revenues	8.3	0.3%
Other revenue changes, net	(5.9)	(0.2%)
2023 Revenues	$ 2,632.6	3.9%

Consolidated revenues for the three months ended July 1, 2023 totaled $2.6 billion, an increase of $99.6 million, or 3.9 percent, as compared to the prior year second quarter. Total wholesale revenues were $2.4 billion for the second quarter 2023, an increase of $96.9 million, or 4.3 percent, as compared to the prior year second quarter. Increases were seen across a majority of departments with lawn and garden, paint, and grilling showing the largest gains. New stores are defined as stores that were activated from January 2022 through June 2023. In 2023, the Company had an increase in wholesale merchandise revenues from new domestic stores of $58.4 million. This increase was partially offset by a decrease in wholesale merchandise revenues due to domestic store cancellations of $9.8 million. As a result, the Company realized a net increase in wholesale merchandise revenues of $48.6 million related to the impact of both new stores affiliated with the Company and from stores that cancelled their membership in 2022 and 2023. Wholesale merchandise revenues to comparable domestic stores increased $11.7 million for the quarter.

The number of the Company's worldwide Ace retail outlets is summarized as follows:

	Three Months Ended	
	July 1, 2023	July 2, 2022
Retail outlets at beginning of period	5,779	5,626
New Retail outlets added	46	46
Retail outlet cancellations	(14)	(12)
Retail outlets at end of period	5,811	5,660

Ace Wholesale Holdings LLC ("AWH") revenues were $128.8 million during the three months ended July 1, 2023, representing a $0.2 million decrease in wholesale revenues from the second quarter of 2022.

Ace Hardware International Holdings, Ltd. ("AIH") revenues were $50.7 million during the three months ended July 1, 2023, representing a $3.7 million decrease in wholesale revenues from the second quarter of 2022.

Ace Services Holdings, LLC ("ASH") revenues were $26.3 million during the three months ended July 1, 2023, representing a $22.9 million increase from the second quarter of 2022. This increase was primarily the result of the acquisition of Unique Indoor Comfort Holdings, LLC ("UICH") on April 12, 2023.

Revenues from Acehardware.com were $115.6 million during the three months ended July 1, 2023, representing an $18.3 million increase from the second quarter of 2022.

Total retail revenues for the quarter were $260.7 million, an increase of $2.7 million, or 1.0 percent, as compared to the prior year second quarter. Retail revenues were negatively impacted by the closure of The Grommet during the third quarter of 2022, resulting in the absence of revenues from Ace Ecommerce Holdings LLC ("AEH") in the second quarter of 2023 compared with $5.6 million in the second quarter of 2022. Retail revenues from Ace Retail Holdings LLC ("ARH") were $260.7 million in the second quarter of 2023, an increase of $8.3 million, or 3.3 percent, from the second quarter of 2022. This increase was primarily driven by new stores added by the Westlake Ace Hardware ("Westlake") and the Great Lakes Ace Hardware ("GLA") retail chains since the end of the first quarter of 2022, which contributed $6.7 million of incremental revenues. Westlake experienced a 2.4 percent increase in same-store-sales while GLA experienced a 1.5 percent decrease in same-store-sales in the quarter. Westlake and GLA together operated 231 stores at the end of the second quarter of 2023 compared to 215 stores at the end of the second quarter of 2022.

Wholesale gross profit for the three months ended July 1, 2023 was $323.6 million, an increase of $36.3 million from the second quarter of 2022. The wholesale gross margin percentage was 13.6 percent of wholesale revenues in the second quarter of 2023, up from 12.6 percent in the second quarter of 2022. The increase in wholesale gross margin percentage was primarily due to a decrease in LIFO expense driven by moderating vendor prices.

Retail gross profit for the three months ended July 1, 2023 was $112.6 million, a decrease of $1.9 million from the second quarter of 2022. The retail gross margin percentage was 43.2 percent of retail revenues in the second quarter of 2023, down from 44.4 percent in the second quarter of 2022. The decrease in retail gross margin percentage primarily resulted from product mix and increased shrink expense. For ARH, retail gross profit is based on the Company's wholesale acquisition cost of product, not ARH's acquisition cost which includes a markup from the Company.

Wholesale operating expenses increased $35.6 million, or 18.9 percent, from the second quarter of 2022. The increase is due to increased advertising expenses, greater lease expense driven by the opening of additional Retail Support Centers ("RSC") and higher compensation expense. Wholesale operating expenses as a percent of wholesale revenues increased to 9.4 percent in the second quarter of 2023 from 8.3 percent in the second quarter of 2022.

Retail operating expenses decreased $10.4 million, or 12.8 percent, from the second quarter of 2022. This decrease was driven by the closure of The Grommet during the third quarter of 2022, resulting in the absence of operating expenses from AEH in the second quarter of 2023. Retail operating expenses as a percent of retail revenue decreased to 27.1 percent in the second quarter of 2023 from 31.4 percent in the second quarter of 2022.

Interest expense increased $6.4 million from the second quarter of 2022 due to higher interest rates and increased borrowings.

Comparison of the Six Months Ended July 1, 2023 to the Six Months Ended July 2, 2022

The following data summarizes the Company's performance in 2023 as compared to 2022 (in millions):

	2023		**2022**		**Favorable/ (Unfavorable)**	
	$	**% of Revenues***	**$**	**% of Revenues***	**$**	**%**
Revenues:						
Wholesale revenues	4,309.9	91.3%	4,332.0	91.3%	(22.1)	(0.5%)
Retail revenues	408.9	8.7%	414.6	8.7%	(5.7)	(1.4%)
Total revenues	4,718.8	100.0%	4,746.6	100.0%	(27.8)	(0.6%)
Gross profit:						
Wholesale gross profit	576.2	13.4%	549.3	12.7%	26.9	4.9%
Retail gross profit	182.6	44.7%	187.5	45.2%	(4.9)	(2.6%)
Total gross profit	758.8	16.1%	736.8	15.5%	22.0	3.0%
Operating expenses:						
Wholesale operating expenses	401.4	9.3%	349.3	8.1%	(52.1)	(14.9%)
Retail operating expenses	140.9	34.5%	148.9	35.9%	8.0	5.4%
Retail pre-opening expenses	2.4	0.6%	0.7	0.2%	(1.7)	(242.9%)
Total operating expenses	544.7	11.5%	498.9	10.5%	(45.8)	(9.2%)
Operating income	214.1	4.6%	237.9	5.0%	(23.8)	(10.0%)
Interest expense	(17.1)	(0.4%)	(8.4)	(0.1%)	(8.7)	(103.6%)
Other income (expense), net	(3.5)	(0.1%)	15.5	0.3%	(19.0)	(122.6%)
Net income attributable to Ace Hardware Corporation	193.5	4.1%	245.0	5.2%	(51.5)	(21.0%)

*Wholesale gross profit and expenses are shown as a percentage of wholesale revenues. Retail gross profit and expenses are shown as a percentage of retail revenues. Non-operating items are shown as a percentage of total revenues.

A reconciliation of consolidated revenues follows (in millions):

	Amount	% Change vs. 2022
2022 Revenues	$ 4,746.6	
Wholesale Merchandise Revenues change based on new and cancelled domestic stores:		
Revenues increase from new stores added since January 2022	113.1	2.4%
Revenues decrease from stores cancelled since January 2022	(20.7)	(0.4%)
Decrease in wholesale merchandise revenues to comparable domestic stores	(169.8)	(3.6%)
Increase in wholesale service revenues	9.2	0.2%
Decrease in AWH wholesale revenues	(13.6)	(0.3%)
Decrease in AIH wholesale revenues	(5.1)	(0.1%)
Increase in ASH service revenues	26.0	0.5%
Increase in Acehardware.com revenues	23.4	0.5%
Increase in ARH retail revenues	3.5	0.1%
Other revenue changes, net	6.2	0.1%
2023 Revenues	$ 4,718.8	(0.6%)

Consolidated revenues for the six months ended July 1, 2023 totaled $4.7 billion, a decrease of $27.8 million, or 0.6 percent, as compared to the prior year. Total wholesale revenues were $4.3 billion, a decrease of $22.1 million, or 0.5 percent, as compared to the prior year. Decreases were seen across many departments with outdoor living and lawn and garden showing the largest declines. New stores are defined as stores that were activated from January 2022 through June 2023. During the six months ended July 1, 2023, the Company had an increase in wholesale merchandise revenues from new domestic stores of $113.1 million. This increase was partially offset by a decrease in wholesale merchandise revenues due to domestic store cancellations of $20.7 million. As a result, the Company realized a net increase in wholesale merchandise revenues of $92.4 million related to the impact of both new stores affiliated with the Company and from stores that cancelled their membership in 2022 and 2023. Wholesale merchandise revenues to comparable domestic stores decreased $169.8 million compared to the prior year.

The number of the Company's worldwide Ace retail outlets is summarized as follows:

	Six Months Ended	
	July 1, 2023	**July 2, 2022**
Retailer outlets at beginning of period	5,746	5,583
New Retailer outlets added	98	100
Retailer outlet cancellations	(33)	(23)
Retailer outlets at end of period	5,811	5,660

AWH revenues were $233.1 million during the six months ended July 1, 2023, representing a $13.6 million decrease in wholesale revenue from the prior year.

AIH revenues were $102.9 million during the six months ended July 1, 2023, representing a $5.1 million decrease in wholesale revenue from the prior year.

ASH revenues were $31.9 million during the six months ended July 1, 2023, representing a $26.0 million increase from the prior year. This increase was primarily the result of the acquisition of UICH on April 12, 2023.

Revenues from Acehardware.com were $166.5 million during the six months ended July 1, 2023, representing a $23.4 million increase from the prior year.

Total retail revenues for the six months ended July 1, 2023, were $408.9 million, a decrease of $5.7 million, or 1.4 percent, as compared to the prior year. This decrease is driven by the closure of The Grommet during the third quarter of 2022, resulting in the absence of revenues from Ace Ecommerce Holdings LLC ("AEH") in the first six months of 2023 compared with $9.2 million in the first six months of 2022. Retail revenues from ARH were $408.9 million during the six months ended July 1, 2023, representing an increase of $3.5 million from the prior year. This increase was driven by new stores added by Westlake and GLA since the end of the first quarter of 2022, which contributed $10.2 million of incremental revenues. Westlake experienced a 0.2 percent increase in same-store-sales while GLA experienced a 3.3 percent decrease in same-store-sales during the six months ended July 1, 2023.

Wholesale gross profit for the first six months of 2023 was $576.2 million, an increase of $26.9 million from the first six months of 2022. The wholesale gross margin percentage was 13.4 percent of wholesale revenues for the six-month period ending July 1, 2023, up from 12.7 percent for the period ended July 2, 2022. The increase in wholesale gross margin percentage was primarily due to a decrease in LIFO expense driven by moderating vendor prices.

Retail gross profit for the six months ended July 1, 2023 was $182.6 million, a decrease of $4.9 million from the six months ended July 2, 2022. Retail gross margin percentage was 44.7 percent of retail revenues for the six-month period ending July 1, 2023, down from 45.2 percent for the period ended July 2, 2022. The decrease in retail gross margin percentage primarily resulted from product mix and increased shrink expense. For ARH, retail gross profit as reported in the Ace financial statements is based on the Ace wholesale acquisition cost of product, not ARH's acquisition cost which includes a markup from the Company.

Wholesale operating expenses increased $52.1 million, or 14.9 percent, in the six months ended July 1, 2023 as compared to the six months ended July 2, 2022. The increase is due to increased advertising expenses, greater lease expense driven by the opening of additional RSCs, and higher health insurance expenses. As a percentage of wholesale revenues, wholesale operating expenses increased to 9.3 percent of wholesale revenues in the first six months of 2023 from 8.1 percent of wholesale revenues in the first six months of 2022.

Retail operating expenses decreased $8.0 million, or 5.4 percent, in the six months ended July 1, 2023 as compared to the six months ended July 2, 2022. This decrease was driven by the closure of The Grommet during the third quarter of 2022, resulting in the absence of operating expenses from AEH in the first six months of 2023. Retail operating expenses as a percentage of retail revenue decreased to 34.5 percent of retail revenues in the first six months of 2023 from 35.9 percent in the first six months of 2022.

Retail pre-opening expenses increased $1.7 million in the six months ended July 1, 2023, due to expenses related to the new Westlake and GLA stores added in 2023.

Interest expense increased $8.7 million in the six months ended July 1, 2023, due to higher interest rates and increased borrowings.

Other income (expense), net decreased $19.0 million compared to the six months ended July 2, 2022 as a result of the $21.7 million gain on sale of the Company's RSC located in Gainesville, Georgia which occurred during the prior year.

Liquidity and Capital Resources

The Company believes that existing cash balances, along with the existing lines of credit and long-term financing, will be sufficient to finance the Company's working capital requirements, debt service, patronage distributions, capital expenditures, share redemptions from cancellations and growth initiatives for at least the next 12 months.

The Company's borrowing requirements have historically arisen from, and are expected to continue to arise from, seasonal working capital needs, debt service, capital improvements and acquisitions, 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 funds from its revolving credit facilities. The Company currently estimates that its cash flows from operating activities and working capital, together with its lines 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, general economic conditions and the cost of capital.

On January 24, 2023, the Company amended its existing credit facility. The January 2023 amendment extended the maturity from February 1, 2024 to January 24, 2028 and increased the capacity of the facility by $400.0 million to $1.1 billion. The facility is expandable to $1.4 billion through a $300.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide any portion of the increased facility. The amendment changed the benchmark for setting interest rates from the London Interbank Bank Offered Rate ("LIBOR") to the Secured Overnight Financing Rate ("SOFR") and borrowings under the amended credit facility now bear interest at a rate of either 25 to 100 basis points over the prime rate or 125 to 200 basis points over SOFR, depending on the Company's leverage ratio. The credit facility was priced at SOFR plus 125 basis points and prime plus 25 basis points at July 1, 2023. Fees on the unused portion of the line of credit range from 17.5 to 27.5 basis points depending on the Company's leverage ratio. All other terms of the credit facility remain unchanged. As of July 1, 2023, the Company was in compliance with its covenants and had $280.0 million in borrowings outstanding under the credit facility.

The credit facility includes a $175.0 million sublimit for the issuance of standby and commercial letters of credit. As of July 1, 2023, a total of $38.2 million in letters of credit were outstanding.

The credit facility allows the Company to make revolving loans and other extensions of credit to AIH in an aggregate principal amount not to exceed $100.0 million at any time. As of July 1, 2023, there were no loans or other extensions of credit provided to AIH.

The Company's Westlake subsidiary has a $125.0 million asset-based revolving credit facility that expires on August 3, 2026 ("Westlake Facility"). The facility is expandable to $150.0 million through a $25.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide a portion of the increased facility. Under this facility, Westlake has the right to issue letters of credit up to a maximum of $7.5 million. Pursuant to an April 12, 2023 amendment, borrowings under this facility now bear interest at a rate of either the prime rate plus an applicable spread of 25 to 50 basis points or SOFR plus an applicable spread of 135 to 160 basis points, depending on Westlake's average availability under the Westlake Facility as measured on a trailing 12-month basis. The Westlake Facility was priced at LIBOR plus 135 basis points at July 1, 2023.

The Westlake Facility is collateralized by substantially all of Westlake's tangible and intangible assets. Borrowings under the facility are subject to a borrowing base calculation consisting of certain advance rates applied to eligible collateral balances (primarily consisting of certain receivables and inventories). This agreement requires maintenance of certain financial covenants including a minimum fixed charge coverage ratio. As of July 1, 2023, ARH was in compliance with its covenants and had no borrowings outstanding under the Westlake Facility.

The Westlake Facility includes a lender-controlled cash concentration system that results in all of Westlake's daily available cash being applied to the outstanding borrowings under their facility. Pursuant to Financial Accounting Standards Board Accounting Standards Codification Section 470-10-45, "Classification of Revolving Credit Agreements Subject to Lock-Box Arrangements and Subjective Acceleration Clauses," all borrowings under the Westlake Facility are classified as a Current maturity of long-term debt.

As of July 1, 2023, total debt was $329.9 million, the majority of which was comprised of the $280.0 million borrowed on lines of credit, compared to no credit line utilization as of December 31, 2022. As of July 2, 2022, total debt was $228.5 million, the majority of which was comprised of the $191.8 million borrowed on lines of credit.

Cash Flows

The Company had $50.6 million and $48.8 million of cash and cash equivalents at July 1, 2023 and July 2, 2022, respectively. Following is a summary of the Company's cash flows from operating, investing and financing activities for the first six months of 2023 and 2022, respectively (in millions):

	2023	2022
Cash provided by operating activities before changes in assets and liabilities	$ 256.7	$ 283.5
Net changes in assets and liabilities	74.5	(264.0)
Net cash provided by operating activities	331.2	19.5
Net cash used in investing activities	(395.9)	(29.6)
Net cash provided by financing activities	86.8	21.3
Net change in cash and cash equivalents	$ 22.1	$ 11.2

The Company's operating activities provided $331.2 million of cash during the first six months of 2023 compared to $19.5 million provided in 2022. Excluding the impact of net changes in assets and liabilities, cash provided by operating activities decreased from $283.5 million in the first six months of 2022 to $256.7 million in the first six months of 2023. This $26.8 million decrease was primarily the result of the $51.7 million decrease in net income; partially offset by the $24.8M decrease in gain on disposal of assets for the first six months of 2023 compared to the first six months of 2022.

The net change in assets and liabilities provided $74.5 million of cash in the first six months of 2023 compared to the use of $264.0 million in the first six months of 2022. Accounts receivable and inventories increased $281.7 million during the first six months of 2023 compared to an increase of $636.6 million during the first six months of 2022. The lower combined increases in accounts receivable and inventories in 2023 were due to lower sales volumes, an increase in the LIFO reserve recorded in the second half of 2022 and a reduction of overstock inventory. Accounts payable and accrued expenses increased $361.7 million during the first six months of 2023 compared to an increase of $365.7 million during the first six months of 2022.

Net cash used in investing activities was $395.9 million in the first six months of 2023 compared to $29.6 million in the first six months of 2022. Investing activities in 2023 primarily consisted of $306.0 million paid to acquire businesses which primarily related to the acquisition of UICH, $77.7 million in capital expenditures, and a $12.9 million increase in notes receivable for Retailer loan programs. Investing activities in 2022 primarily consisted of $45.5 million in capital expenditures and a $9.3 million increase in notes receivable for Retailer loan programs; partially offset by $28.3 million of cash proceeds from the sale of assets, which included the sale of the Gainesville RSC.

Net cash provided by financing activities was $86.8 million in the first six months of 2023 compared to $21.3 million in the first six months of 2022. During 2023, the Company had $280.0 million of increased borrowings under its revolving credit facilities, paid $133.1 million for the cash portion of the 2022 patronage distribution, paid $26.7 million on patronage refund certificates, made principal payments on finance leases of $15.3 million and made payments on long-term debt of $7.3 million. During 2022, the Company had $186.9 million of increased borrowings under its revolving credit facilities, paid $121.0 million for the cash portion of the 2021 patronage distribution, paid $25.9 million on patronage refund certificates, made principal payments on finance leases of $8.3 million and made payments on long-term debt of $6.1 million.

Contractual Obligations and Commitments

For the six months ended July 1, 2023, there have been no significant changes to the Company's contractual obligations and commitments as disclosed in its 2022 Annual Report.

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 2022 Annual Report.

Qualitative and Quantitative Disclosure About Market Risk

The Company is exposed to market risk in the normal course of its business operations, including the risk of loss from inflation and changes in price, foreign currency, interest rates and customer credit risk.

There has been no material change in the Company's exposure to market risk from what was disclosed in the 2022 Annual Report.

Certain Other Risks

The Company relies extensively on information technology systems, some of which are managed or provided by third-party service providers, to analyze, process, store, manage and protect transactions and data. In managing the business, the Company also relies heavily on the integrity of, security of and consistent access to this data for information such as customer data, merchandise planning and inventory replenishment, supplier purchases, sales to Retailers, warehousing, distribution, inventory control, and various corporate-level financial and other functions including communication with the Retailers. The Company's systems and the systems managed by third parties are subject to damage or interruption from a number of causes, including power outages; computer and telecommunications failures; computer viruses; security breaches or cyber-attacks. Although the Company and the third-party service providers seek to maintain the Company's respective systems effectively and to successfully address the risk of compromise of the integrity, security and consistent operations of these systems, such efforts may not be successful. If the Company's or our service providers' systems are damaged, breached or cease to function properly, this could significantly disrupt the Company's operations and be costly, time consuming and resource-intensive to remedy.

The Company and its third-party system providers receive, collect and store personally identifiable, confidential, proprietary and other information from our vendors, customers and employees so that they may, among other things, purchase products or services and enroll in promotional programs. Any breach of the Company's or its third-party system providers' security could result in significant costs to protect any customers, vendors, employees, and other parties whose personal data is compromised. Loss of customer, supplier, employee or other business information could disrupt operations, damage the Company's reputation and expose the Company to claims from customers, vendors, financial institutions, regulators, payment card associations, employees and others, any of which could have a material adverse effect on the Company, its financial condition and results of operations.

The U.S. economy has been experiencing an elevated level of inflation as the prices of raw materials and freight have negatively impacted the costs the Company pays to acquire products. The Company attempts to offset the effect of increased costs by passing along cost increases to the Company's customers. If these increases cannot be passed to our customers, our financial condition, results of operations, liquidity, and cash flows may be negatively affected.

The Company continues to monitor these market forces and risks but cannot reasonably predict the long-term impacts of these evolving developments.

Disclosure Regarding Forward-Looking Statements

This document includes certain forward-looking statements about the expectations of the Company. Although the Company believes these statements are based on reasonable assumptions, actual results may vary materially from stated expectations. Such forward-looking statements may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "expect," "intend," "may," "planned," "potential," "should," "will," "would," "project," "estimate," "ultimate," or similar phrases. Actual results may differ materially from those indicated in the Company's forward-looking statements and undue reliance should not be placed on such statements.

Factors that could cause materially different results include, but are not limited to, weather conditions, natural disasters, civil unrest; pandemics; acts of terrorism; fair value accounting adjustments; inventory valuation; health care costs; insurance costs or recoveries; legal costs; borrowing needs; interest rates; credit conditions; economic and market conditions; increases in fuel costs; accidents, leaks, equipment failures, ransomware attacks, cybersecurity incidents, technology disruptions and other operating risks; legislative actions; change in tax laws and tax rulings or audit results; asset sales; effective integration of acquired businesses; significant unplanned capital needs; changes in accounting principles, interpretations, methods, judgments or estimates; performance of major customers; reliance on third-party transporters, suppliers and contractors and interruption of product supply or increases in product costs; labor relations, increased labor costs and continued access to qualified labor.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company undertakes no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this report.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The 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 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 and Finance 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 and Finance Committee recommends to the full Board of Directors the selection of 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 and Finance Committee.

August 15, 2023

/s/ John Venhuizen
John Venhuizen
President and Chief Executive Officer

/s/ William M. Guzik
William M. Guzik
Executive Vice President,
Chief Financial Officer and Chief Risk Officer

/s/ Steven G. Locanto
Steven G. Locanto
Vice President, Controller

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