

# PET VALU, INC.

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## **PET VALU REPORTS 2006 SECOND QUARTER EARNINGS PER SHARE OF \$0.16 (C\$0.18)**

All financial results expressed in U.S. dollars unless otherwise indicated

Markham, Ontario, August 9, 2006. Pet Valu, Inc. (TSX stock symbol for Pet Valu Canada Inc., Pet Valu, Inc.'s publicly traded Canadian operating subsidiary, is PVC) announced today unaudited second quarter results for fiscal 2006. On a consolidated basis, net income was \$1,219,000 or \$0.16 per share as compared to \$1,013,000 or \$0.14 per share for the second quarter of fiscal 2005. Earnings per share were \$1.00 (C\$1.16) for the most recent 52-week period ending July 1, 2006.

	13 Weeks ended July 1, 2006	13 Weeks ended July 2, 2005	26 Weeks ended July 1, 2006	26 Weeks ended July 2, 2005
No. of Stores	349	347	349	347
Sales and Revenue	\$35,501,000	\$31,619,000	\$69,582,000	\$63,536,000
Gross Profit	\$9,919,000	\$8,442,000	\$19,142,000	\$16,540,000
EBITDA	\$3,175,000	\$2,943,000	\$5,911,000	\$5,467,000
Net Income	\$1,219,000	\$1,013,000	\$2,141,000	\$1,821,000
Basic EPS	\$0.16	\$0.14	\$0.28	\$0.24
Fully Diluted EPS	\$0.13	\$0.12	\$0.24	\$0.22

EBITDA is not a recognized measure under GAAP. As this measure does not have a standardized meaning prescribed by GAAP, the Company's method of calculating EBITDA may differ from other companies. The Company believes that EBITDA is a useful supplemental measure as it provides investors with an indication of cash available prior to debt service, capital expenditures and income taxes.

Comparable store sales for the thirteen week period ending July 1, 2006 increased by 1.2% in the U.S. as compared to the thirteen week period ending July 2, 2005. In Canada, comparable store sales for the thirteen week period ending July 1, 2006 increased by 3.3% as compared to the thirteen week period ending July 2, 2005. During the quarter, the Company continued with the implementation of programs designed to shift its product offering to higher-margin, high-quality pet products.

### **CANADIAN OPERATIONS**

	13 Weeks ended July 1, 2006	13 Weeks ended July 2, 2005	26 Weeks ended July 1, 2006	26 Weeks ended July 2, 2005
No. of Stores	282	285	282	285
Sales and Revenue	\$26,824,000	\$23,445,000	\$52,485,000	\$47,329,000
Gross Profit	\$7,496,000	\$6,102,000	\$14,411,000	\$11,931,000
EBITDA	\$2,822,000	\$2,580,000	\$5,311,000	\$4,747,000
Net Income	\$975,000	\$769,000	\$1,744,000	\$1,340,000

An increase in comparable store sales and an increase in the U.S./Canadian foreign currency exchange rate contributed to the increase in sales and revenue for the quarter and for the year to date. Increases in gross profit and cash flow represented by EBITDA were primarily due to increasing sales, the introduction of more higher-margin, high-quality products, and a reduction in the Canadian dollar cost of U.S. sourced products. Both store operating expenses and general and administrative expenses were higher than the prior year. An increase in the number of corporate stores contributed to the increase in store operating expenses and an increase in management capacity and certain one-time costs related to refinancings contributed to increased general and administrative costs.

## U.S. OPERATIONS

	13 Weeks ended July 1, 2006	13 Weeks ended July 2, 2005	26 Weeks ended July 1, 2006	26 Weeks ended July 2, 2005
No. of Stores	67	62	67	62
Sales and Revenue	\$8,677,000	\$8,175,000	\$17,097,000	\$16,204,000
Gross Profit	\$2,548,000	\$2,464,000	\$4,980,000	\$4,858,000
EBITDA	\$479,000	\$486,000	\$849,000	\$969,000
Net Income	\$369,000	\$368,000	\$646,000	\$730,000

An increase in comparable store sales contributed to the increase in sales and revenue and the increase in gross profit in the U.S. stores. An increase in the number of stores contributed to the increase in sales and revenue, gross profit, and store operating expenses for the second quarter of fiscal 2006.

## OUTLOOK

One of the Company's objectives is the reduction of interest expense. All of the principal and accrued interest on the 8.5% debentures that matured on July 24, 2006 was paid to the debenture holder trustee from the Company's bank line availability and the proceeds from a private placement of Pet Valu Canada Inc. completed on the same date. The Company intends to prepay the 12.5% debenture due in September, 2009 on October 31, 2006 using the proceeds from the exercise of warrants that were otherwise due to expire on July 24, 2006, excess funds from Pet Valu Canada Inc.'s private placement and its bank line availability. The combined effect of these repayments, and expected growth in earnings, will be to reduce overall interest expense going forward.

A second objective is to improve our technological systems and increase automation including an expansion of system facilities and capacities. A definitive competitive advantage in this area should be achievable and the cost of related software development is not expected to be substantial as the work will, for the most part, be completed in-house.

A third objective is to assess the Company's practices, systems and strategies and to ensure that they are compatible with "best practices" as they apply in the coming decade. An internal "corporate re-engineering group" has been formed, including the recent recruitment of high talent individuals from the consulting industry, to complete this objective along with various other corporate projects. Once major projects have been completed, members of this group will be absorbed into the executive body of the Company in order to manage expected business growth.

Among the key projects of the Company in 2006 being undertaken by the new corporate re-engineering group is the development of a new U.S. market expansion plan. This plan will address all strategies and activities required to effect profitable U.S. niche positioning on and outside the eastern seaboard. Similarly, the corporate re-engineering group will assess the feasibility and best strategies to expand in Canada to Alberta and British Columbia. Any U.S. or Canadian expansion will only be undertaken if and when it is determined to be worthwhile to do so in balance with other opportunities.

A fourth objective is to continue with the Company's planned re-niching of store ambience, signage and product selection under the "Better Pet Nutrition" concept.

Finally, the Company intends to continue expanding its product development in combination with pursuing strategies relating to the development and protection of associated intellectual property.

In general, the focus of the Company will be on growth in earnings and cash flow with a strong emphasis on building for the future.

Certain information in this news release is forward-looking and is subject to important risks and uncertainties. Forward-looking information includes information concerning the Company's future financial performance, business strategy, plans, goals, objectives, business prospects and opportunities. The forward-looking information reflects predictions and does not in any way reflect a guarantee. Factors which could cause actual results or events to differ materially from current expectations include, among other things: the ability of the Company to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits; competitive conditions in the businesses in which the Company participates; changes in consumer spending; the outcome of legal proceedings as they arise; general economic conditions and normal business uncertainty; the availability of suitable store locations; customer preferences towards product offerings; adverse climate changes; the occurrence of a pandemic or other catastrophic event which could create shortages of labour, products or services required to operate the business profitably; fluctuations in foreign currency exchange rates; changes in the Company's relationship with its merchandise and service suppliers; interest rate fluctuations and other changes in borrowing costs; and changes in laws, rules and regulations applicable to the Company or the markets in which the Company operates. The Company cautions that this is not an exhaustive list of factors that may affect the forward-looking information in this news release. Potential investors and readers are urged to give careful consideration to all of these factors in evaluating any forward-looking information and are cautioned not to place undue reliance on such information. While the Company believes that its forecasts and assumptions are reasonable, results or events predicted in this forward-looking information may differ materially from actual results or events.

Pet Valu is a specialty retailer of pet food and pet supplies operating Company-owned and franchised locations in Canada and the U.S.

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