

PET VALU REPORTS SECOND QUARTER 2009 FINANCIAL RESULTS

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

Markham, Ontario, August 11, 2009. Pet Valu, Inc. announced today second quarter results for fiscal 2009. On a consolidated basis, net income for the quarter ended July 4, 2009 was \$2.8 million or \$0.28 per diluted share as compared to net income of \$3.6 million or \$0.35 per diluted share for the second quarter of fiscal 2008. Excluding non-comparable items, net income was \$3.6 million or \$0.35 per diluted share as compared to net income of \$3.8 million or \$0.38 per diluted share for the second quarter of fiscal 2008.

COMPARABLE STORE SALES

Comparable store sales for the quarter ended July 4, 2009 increased by 6.0% in Canada and by 2.8% in the United States as compared to the quarter ended June 28, 2008. During the quarter, higher margin high-quality pet product sales have continued to show growth, and a more positive shopping experience for customers has contributed to higher sales.

RESULTS

(in thousands of U.S. dollars, except EPS)

	13 Weeks ended July 4, 2009	13 Weeks ended June 28, 2008	26 Weeks ended July 4, 2009	26 Weeks ended June 28, 2008
No. of Stores	356	339	356	339
System wide sales	\$52,297	\$54,592	\$101,398	\$107,862
Sales and Revenue	\$43,271	\$44,257	\$84,545	\$87,057
EBITDA ⁽¹⁾	\$4,354	\$6,227	\$8,801	\$11,454
EBITDA excluding non-comparable items	\$5,525	\$6,597	\$10,338	\$11,824
Loss (gain) on foreign exchange	(\$440)	(\$127)	(\$262)	\$121
Net Income	\$2,807	\$3,595	\$5,529	\$6,433
Net Income excluding non-comparable items ⁽²⁾	\$3,586	\$3,841	\$6,550	\$6,679
Basic EPS	\$0.30	\$0.38	\$0.58	\$0.71
Diluted EPS	\$0.28	\$0.35	\$0.54	\$0.63
Basic EPS excluding non-comparable items ⁽³⁾	\$0.38	\$0.41	\$0.69	\$0.74
Diluted EPS excluding non-comparable items ⁽³⁾	\$0.35	\$0.38	\$0.64	\$0.66
Non-comparable items:				
Strategic alternative and sale related costs	\$1,171	-	\$1,536	-
Shareholder proxy costs	-	\$370	-	\$370
Applicable tax on non-comparable items	(\$392)	(\$124)	(\$515)	(\$124)

CANADIAN OPERATIONS

(in thousands of U.S. dollars)

	13 Weeks ended July 4, 2009	13 Weeks ended June 28, 2008	26 Weeks ended July 4, 2009	26 Weeks ended June 28, 2008
No. of Stores	295	277	295	277
System wide sales	\$42,957	\$45,471	\$82,595	\$90,053
Sales and Revenue	\$33,931	\$35,129	\$65,745	\$69,236
EBITDA ⁽¹⁾	\$3,459	\$5,621	\$7,059	\$10,509
EBITDA excluding non-comparable items	\$4,630	\$5,991	\$8,595	\$10,879
Loss (gain) on foreign exchange	(\$440)	(\$127)	(\$262)	\$121
Net Income	\$1,934	\$3,041	\$3,833	\$5,559
Net Income excluding non-comparable items ⁽²⁾	\$2,714	\$3,287	\$4,854	\$5,805
Non-comparable items:				
Strategic alternative and sale related costs	\$1,171	-	\$1,536	-
Shareholder proxy costs	-	\$370	-	\$370
Applicable tax on non-comparable items	(\$392)	(\$124)	(\$515)	(\$124)

U.S. OPERATIONS

(in thousands of U.S. dollars)

	13 Weeks ended July 4, 2009	13 Weeks ended June 28, 2008	26 Weeks ended July 4, 2009	26 Weeks ended June 28, 2008
No. of Stores	61	62	61	62
System wide sales	\$9,340	\$9,121	\$18,803	\$17,809
Sales and Revenue	\$9,340	\$9,128	\$18,800	\$17,821
EBITDA ⁽¹⁾	\$895	\$606	\$1,743	\$945
Net Income	\$873	\$554	\$1,696	\$874

NON-COMPARABLE ITEMS

During the second quarter of fiscal 2009, the Company incurred \$1.2 million of non-comparable costs in relation to the strategic alternative process including the negotiation of the sale of the Company referred to in the Company's July 6, 2009 press release. These costs will continue into the third quarter to facilitate the shareholder vote required to complete the sale and the closing of the transaction. Year to date these costs were \$1.5 million. In the first two quarters of the prior year, non-comparable costs were comprised of legal and other costs in relation to the 2008 shareholder proxy contest.

KEY ACCOMPLISHMENTS

During fiscal 2008 and the first half of fiscal 2009, the Company pursued key priorities intended to improve results from operations, liquidity, capital resources and cash flow.

Store margin improvements

During the second quarter of fiscal 2009, the Company undertook certain actions to increase gross profit margins at corporate and franchise store level. Increases in store gross profit margins improve the overall health of the operations by improving the profits of both the Company and its franchisees. Over the past year, store gross profit margins had weakened as a result of increases in the wholesale cost of products due to increases in commodity prices and, in Canada, an increase in the Canadian dollar cost of imported products. Among the Company's actions to increase store gross profit margins there were retail pricing adjustments across various product lines where competition allowed, as well as adjustments to wholesale prices related to a strengthening Canadian dollar.

Reniching

The Company continued to pursue a long-term objective of shifting its product offering to higher-margin, high-quality pet products, which include pet specialty brands and private label products featuring a wellness-focused approach to pet nutrition. Except for changes in foreign currency exchange rates, this reniching program has improved and is expected to continue to improve operating profits and enhance the image of the Company as a specialty retailer.

Inventory Investment

The Company's inventory buying system is designed to take advantage of opportunities, including those in relation to cost inflation. During fiscal 2008, the Company's warehouse inventory levels increased significantly. The Company believes that declines in various commodity prices will slow the rate of any cost increases in fiscal 2009 and will likely result in a reduction of these inventories in fiscal 2009. At July 4, 2009, warehouse inventory levels were C\$1.8 million less than fiscal 2008 year end levels.

Development of Canadian Corporate Store Programs

During fiscal 2008, the Company dedicated an increasing amount of effort to the operation of its Canadian company-owned stores by developing and implementing programs designed to increase sales and operating profitability. These programs included more product and sales training for corporate store staff and an incentive program for corporate store managers. The implementation of these programs has largely been completed. However, they continued to contribute to the increase in comparable store sales of 8.7% for Canadian company-owned stores in the first half of fiscal 2009.

Acquisition

On August 22, 2008, the Company completed the purchase of a 15 store pet food and supply business known as BERRYS or BERRYS...YOUR PETSCHOICE. These stores are all located in eastern Ontario. The purchase price of C\$2.4 million was financed using the Company's existing bank operating line. At the time of acquisition, the Berrys operations and the anticipated operating synergies were expected to incrementally contribute an approximate C\$600,000 to the Company's consolidated income before income taxes during the first 12 months of inclusion. Through the second quarter of fiscal 2009, these stores performed largely as anticipated.

Amendment of Bank Credit Agreement

During the third quarter of fiscal 2008, the Company entered into an agreement with its principal bank to amend its existing credit agreement dated as of July 14, 2006 ("Credit Agreement"). The amendment increased the revolving line of credit in the Credit Agreement from a maximum of C\$15 million to a maximum of C\$20 million. In addition, the amendment created a new C\$5 million term loan that bears interest at prime plus 1% and is repayable in 24 equal monthly installments. The amendment did not materially change any other terms contained in the Credit Agreement.

Repayment of 10% Non-convertible Debentures

In accordance with a debenture holder agreement dated July 24, 2006, the scheduled repayment of principal and accrued interest for the 10% non-convertible debentures created under this agreement was made on July 24, 2008 by cash payments to the debenture holders. The amount of the payments was C\$8,877,836, consisting of principal repayments of C\$8,820,000 and accrued interest of C\$57,836. These payments were financed from the new bank term loan, the Company's bank operating line and funds provided from operations.

OUTLOOK

The Company continues to pursue strategic initiatives to improve earnings during 2009 as outlined in the Outlook section of the fiscal 2008 Annual Report.

Strategies Addressing Current Economic Conditions

The Company has implemented specific programs to address recession-based impacts. These include specific initiatives with respect to reductions in occupancy and other costs where reductions might be possible as a result of the current economic conditions. Cost reductions on some warehouse leases are expected as those leases are renewed during the third quarter of fiscal 2009 or replaced with leases for new facilities.

To the extent that customer buying patterns have changed as a result of the current economic conditions, the Company's financial performance has not been materially impacted. The Company will continue to monitor activity in all the markets in which the Company operates and respond accordingly.

Pursuit of Organic Growth

Organic growth has resulted primarily from the Company's reniching programs, including the additions of new differentiated products and the continued development of private label products. These reniching programs are on-going and include further product differentiation, staff training, facilities upgrades, and customer service initiatives. The Company will continue to focus on these programs for the foreseeable future with the goal of increasing sales, maintaining strong margins and improving the customer experience and product selection.

Initiatives to Sustain Growth in Earnings

Improvements to the efficiency of the operation of the business are being sought through expanded automation in relation to both routine decision-making and inventory management. Improvements to productivity are being pursued through the development of performance management measures at all levels of staffing.

POTENTIAL SALE OF PET VALU

As announced in a press release dated July 6, 2009, Pet Valu, Inc. and Pet Valu Canada Inc. have entered into a definitive agreement to be acquired by certain affiliates of Roark Capital Group, an Atlanta based private equity firm. Under the terms of the agreement, shareholders of Pet Valu Canada Inc. (Pet Valu, Inc.'s publicly-traded Canadian operating subsidiary) will receive C\$13.68 in cash for each of their exchangeable shares, representing a total equity value of approximately C\$143.7 million. The transaction is subject to shareholder and court approval and there can be no assurance that it will be completed. The Company's Board of Directors have determined that the transaction is fair to shareholders of the Company and in its best interest and are recommending that shareholders vote in favour of the transaction.

SPECIAL MEETINGS OF SHAREHOLDERS

Special meetings of the shareholders of Pet Valu, Inc. and Pet Valu Canada Inc. will be held on August 25, 2009 at the Toronto Board of Trade at 10:00 am and 10:30 am EDT, respectively. On July 28, 2009, an information circular was filed on SEDAR with respect to these meetings. During the meetings, shareholders will vote on several resolutions required to effect the transaction.

CONFERENCE CALL

Due to the pending transaction there will not be a conference call to discuss the Company's financial results for the second quarter of fiscal 2009.

NON-GAAP FINANCIAL MEASURES

- (1) 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.
- (2) Net Income excluding non-comparable items is not a recognized measure under GAAP. As this measure does not have a standardized meaning prescribed by GAAP, it is unlikely to be comparable to similar measures presented by other companies. The Company believes that earnings excluding non-comparable items is a useful supplemental measure. It is used by the Company to assess its underlying performance from continuing operations and to provide a more useful comparison by eliminating non-recurring items.
- (3) EPS excluding non-comparable items is not a recognized measure under GAAP. As this measure does not have a standardized meaning prescribed by GAAP, it is unlikely to be comparable to similar measures presented by other companies. The Company believes that earnings excluding non-comparable items is a useful supplemental measure. It is used by the Company to assess its underlying performance from continuing operations and to provide a more useful comparison by eliminating non-recurring items

FORWARD-LOOKING STATEMENTS

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; the outcome of strategic alternatives being considered by the Company's board of directors; 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.

COMPANY PROFILE

Pet Valu is a specialty retailer and wholesaler of pet food and pet-related supplies and a franchisor of pet food and pet-related supply outlets. The TSX stock symbol for Pet Valu Canada Inc., Pet Valu, Inc.'s publicly traded Canadian operating subsidiary, is PVC.

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