RONA
Pour bien faire, depuis 1939.

NEWS RELEASE

RONA SEES FIRST SIGNS OF RECOVERY IN THIRD QUARTER 2009

THIRD-QUARTER HIGHLIGHTS

- Sales down 4.4% largely due to a 5.3% decline in corporate and franchise same-store sales and a 1.6% decline in distribution sector sales
- Major increase in applications for the RONAdvantage program – over 10,000 signed up across the RONA network to date, representing renovation projects worth over $100 million
- Increased RONA private brand and controlled-label penetration – over 19% in the third quarter, compared to 17% in 2008
- Ongoing cost reductions and efficiency improvements under the PEP program, resulting in only 13 basis points lost on EBITDA margin, despite a 5.3% decline in same-store sales
- Comparable inventories cut by $51 million or 6.0%
- 18.0% reduction in interest expenses on long-term debt and bank loans
- Unusual items mainly related to store closures totalling $4.1 million after taxes in third quarter 2009 versus $6.4 million in third quarter 2008
- Net earnings, including unusual items, of $49.1 million in third quarter 2009, or $0.38 per share (diluted), versus $52.5 million or $0.45 per share (diluted) in 2008
- Net earnings, excluding unusual items, of $53.3 million in third quarter 2009, or $0.41 per share (diluted), versus $58.9 million or $0.50 per share (diluted) in 2008
- Ongoing expansion with two new 52,000-square-foot proximity stores opened: one TOTEM Building Supplies store in Strathmore, Alberta, and a RONA store in Saint-Georges, Quebec. These are the first two RONA stores to seek LEED certification (Leadership in Energy and Environmental Design), an environmental evaluation system for new buildings.

Boucherville (Quebec), November 10, 2009 – RONA inc. (TSX: RON), Canada's largest retailer and distributor of home renovation, hardware and gardening products, today reported consolidated sales of $1,320.5 million in third quarter 2009, $61.2 million or 4.4% less than the $1,381.7 million posted in 2008, despite higher sales to commercial and professional customers in Ontario and a slight decrease in sales to Canadian consumers. The decline is the result of a 5.3% reduction in same-store sales in the corporate and franchise store sector, while sales in the distribution sector were down 1.6%.

This decline in same-store sales is due mainly to a drop in housing starts in recent quarters, putting downward pressure on sales by building materials specialists and also on home renovation spending, as home buyers generally undertake major improvements in the months and years following the purchase of a new property. The decline can also be attributed to low confidence among Canadian consumers – still lagging behind last year, despite some recent improvement. Finally, weather conditions once again were particularly unfavourable for the sale of seasonal products at the beginning of the quarter. Over 80% of the same-store sales decline is due to lower sales of forest products, building materials and seasonal items. Paint, lighting fixtures, hardware, kitchen and installation services posted very good sales performance this quarter, reflecting caution on the part of consumers in choosing smaller renovation projects, but also sales increases associated with our complementary RONAdvantage renovation tax credit incentive program as well as the success of our different promotions.

Operating income, including unusual items, amounted to $105.8 million in third quarter 2009, down $6.7 million or 6.0% compared to $112.5 million posted in 2008. Excluding unusual items, operating income was $111.8 million in third quarter 2009, down $9.3 million or 7.7% from 2008. The EBITDA margin declined from 8.76% in 2008 to 8.46% in 2009. Numerous efficiency improvements under the PEP program (productivity, efficiency, profitability) in Phase 1 of the 2008-2011 strategic plan helped offset the negative impact of this continued downward pressure on sales in the renovation-construction industry caused by low consumer confidence and the results of recently opened stores that have not yet reached their full potential. In the third quarter, the PEP program helped reduce inventory levels, optimize the existing store network and reduce transportation and logistics costs.

Net earnings, including unusual items in third quarter 2009, were down $3.4 million or 6.4%, at $49.1 million, or $0.38 per share (diluted), compared to $52.5 million or $0.45 per share (diluted) in 2008. Excluding unusual items, net earnings were $53.3 million in third quarter 2009, or $0.41 per share (diluted), compared to $58.9 million or $0.50 per share (diluted) in 2008, down $5.6 million or 9.6%. The average number of shares increased by 13.8 million or 11.9% compared to third quarter 2008 following a share issue completed in June. Given this increase in the average number of shares, the diluted earnings per share declined by 18.0% over the quarter. The dilution effect on earnings per share related to the higher average number of shares is $0.04 per share.

“As anticipated, we glimpsed the first signs of recovery in our industry during the third quarter. Same-store sales in our store network continued to decline, but more slowly than at the beginning of the year. Our industry has noted some encouraging statistics in the last few months, including home resales and average home prices. As predicted, our PEP program (productivity, efficiency, profitability) has continued to produce very good results, allowing us to limit shrinkage in our EBITDA margin to just 13 basis points, despite a 5.3% decline in same-store sales this quarter,” RONA president and CEO Robert Dutton said.

“The business environment is increasingly favourable to real estate activity overall. Very low mortgage rates and the popularity of the renovation tax credits should continue to stimulate renovation activity across the country. We should point out, however, that the sharp decrease in housing starts during the last few quarters will continue to put downward pressure on sales by building materials specialists and on home renovation spending, since new home buyers generally undertake major improvements in the months and years following their purchase of a new property. In this economic context, we will continue for the next few quarters to pursue the numerous optimization measures under the PEP program. Given the major gains in efficiency we’ve achieved to date under the PEP program and the Company’s increased financial flexibility in the wake of our issue of common shares in June, we believe the Company is in an excellent position to commence Phase 2 of our 2008–2011 strategic plan. We’re currently finalizing plans for this phase, which will focus on the re-acceleration of RONA’s development activities. New initiatives will be launched in late 2009, including the launch, on November 12, of a new concept for a highly innovative interior design and paint store,” Dutton concluded.

ANALYSIS OF CONSOLIDATED RESULTS FOR THE THIRD QUARTER 2009

NEW ACCOUNTING STANDARD

Readers of this *Press Release* will note the adoption of a new accounting standard in the first quarter of 2009, which restated the results presented in 2008. At the beginning of 2009 the Company retroactively adopted Section 3064 of the Canadian Institute of Chartered Accountants’ (CICA) Handbook, *Goodwill and intangible assets*, which replaces Section 3062 of the same title. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally generated intangible assets. Pre-opening expenses for stores and distribution centres (previously included in Other Assets), advertising costs, including those related to store openings, and costs incurred for Olympic and Paralympic sponsorship (previously included in Prepaid Expenses) no longer meet the requirements of the new section. The balances in these asset accounts as at December 31, 2007 – that is, at the beginning of first quarter 2008 – were restated and included in Retained Earnings and the results of operations in 2008 were also restated to conform to the 2009 presentation.

In summary, operating income for third quarter 2008 has been reduced by $3.0 million, amortization and depreciation by $1.8 million and net earnings by $0.9 million, a total reduction of $0.01 per share. For the nine-month period ended September 28, 2008, operating income was reduced by $16.8 million, amortization and depreciation by $5.6 million and net earnings by $7.8 million, a total reduction of $0.06 per share.

Prepaid expenses were also reduced by $36.2 million, other assets by $2.8 million and opening retained earnings by $20.5 million. The detailed impact of applying these new recommendations during the first period of application of Section 3064 is explained on page 15 of the Management's Discussion and Analysis and in Note 2 of the Consolidated Financial Statements.

UPDATE ON THE COMPANY'S STRATEGIC ORIENTATION

RONA's 2008–2011 strategic plan was presented to the financial community during Investors Day on February 27, 2008 in Montreal. A news release outlining the issues and objectives of the plan was also published that day. RONA management made a commitment to provide quarterly updates of the plan's progress in its management report and an annual update in its annual report and at its annual general meeting.

Achievements in third quarter 2009

The following section highlights quarterly achievements related to the implementation of various initiatives under Phase 1 of the plan – that is, the PEP program (productivity, efficiency, profitability) – grouped into four main projects.

1. Improve the profitability of our corporate store network:
   - Consolidated gross margin decreased by 21 basis points in the third quarter due to a greater proportion of distribution sales, which generate lower margins than retail activities. Given better terms and conditions from our suppliers and the resulting supportive effect on growth of the network, the adjusted gross margin shrank by 6 basis points. Excluding the unfavourable effect related to the higher proportion of distribution sales, the adjusted gross margin improved by 11 basis points. Margin increases achieved through regular retail activities were reduced by the impact of liquidating seasonal products, which explains why the increase in the adjusted margin is lower than in previous quarters. The liquidation served, however, to reduce inventory levels, increase stock rotation rates and improve inventory quality.
   - Our turnaround plan for underperforming stores has produced very good results, as these stores have posted relatively higher increases in sales and operating income than the network as a whole during this quarter.

2. Optimize the supply chain:
   - Same-store and distribution centre inventories were reduced by $51 million or 6.0% in third quarter 2009 (excluding acquisitions and new stores) compared to third quarter 2008, resulting in lower operating costs and financing charges. Including acquisitions and new stores, inventories were reduced by $38 million.
   - Reduced transportation costs and ongoing improvements in demand management resulted in a reduction of nearly $1 million in logistics costs in third quarter 2009.

3. Accelerate recruitment of independent dealer-owners:
   - Since the beginning of the year, a total of 12 dealer-owners have been recruited, representing estimated annual retail sales of over $30 million.
   - RONA dealer-owners have been very busy this year, completing 42 expansion and renovation projects totalling nearly $40 million in investments.
   - Jean-Luc Meunier was appointed senior vice president, affiliate dealer-owner network development. Mr. Meunier reports directly to the Company's president and CEO, Robert Dutton, and sits on the executive committee. At RONA, Mr. Meunier's team is in charge of recruitment and development of the affiliate dealer-owner network and dealer support.

4. Improve sales and increase customer loyalty across the RONA network:
   - A major increase in applications for the RONAdvantage program, which provides rebates in the form of gift certificates to a maximum of $1,000 as a complementary incentive under the new renovation tax credit programs. Over 10,000 applications representing renovation projects worth more than $100 million have been received to date across the RONA network. RONA estimates that close to 75% of these projects have been completed. RONAdvantage is the industry's only ongoing complementary incentive program to the renovation tax credits.
   - The success of RONAdvantage has also had a major positive effect on the number of new RONA VISA Desjardins credit cards issued since the beginning of the year (over 15% growth), on the volume of financing (over 50% growth), on installation services (over 15% growth) and on the use of the RONA Project Guides to help carry out these renovation projects.
   - Increased penetration by RONA private brand and controlled-label products to over 19% in the third quarter, despite a slight decrease in sales.
   - Launch of RONA ECO paint, a line of recovered/recycled paint available in 16 fashion colours throughout the RONA store network in Canada.
   - Over 15% growth in commercial and professional sales for big-box stores in Ontario, thanks to close cooperation with the specialized sales team in our Commercial and Professional Market Division.
   - Same-store sales growth for Noble Trade Plumbing Supplies, despite a declining market.
   - Opening of two new 52,000-square-foot proximity stores, one under the TOTEM Building Supplies banner in Strathmore, Alberta, and one under the RONA banner in Saint-Georges, Quebec. These concepts, which are improved with each new opening, are highly promising as vehicles for growth in the years ahead. They offer a very good balance between the product variety of the big-box stores and the expertise of smaller stores. These are the first two RONA stores to seek LEED certification (Leadership in Energy and Environmental Design). LEED is an environmental evaluation system for new buildings.
   - Signature of an exclusive partnership agreement with Maple Leaf Sports & Entertainment Ltd. that includes permanent, camera-visible RONA branding during these teams' home games at Air Canada Centre and Ricoh Coliseum, including on-ice RONA logos. Under this agreement, RONA will also enjoy exclusive opportunities to offer customers in our stores a chance to win tickets to Leafs, Raptors and Marlies games.
   - Launch of a new English-language reality TV show, *My RONA Home.* The first episode of the 10-show series was broadcast on Citytv on Sunday, October 4.
   - Launch of a new multi-platform advertising campaign for RONA's 70th anniversary, including major discounts on selected items, thousands of Air Miles™ rewards, draws for trips to the 2010 Winter Olympic Games in Vancouver and a variety of other prizes.

Consolidated sales

Consolidated sales for third quarter 2009 were $1,320.5 million, down $61.2 million or 4.4% from the $1,381.7 million posted in 2008. This decline is largely the result of a 5.3% decrease in same-store sales in the corporate and franchise sector, while sales in the distribution sector were down 1.6%.

This decline in same-store sales is due mainly to a drop in housing starts in recent quarters, putting downward pressure on sales by building materials specialists and on home renovation spending, since new home buyers generally undertake major improvements in the months and years following their purchase of a new property. The decline can also be attributed to low confidence among Canadian consumers – still lagging behind last year, despite some recent improvement. Finally, weather conditions once again were particularly unfavourable for the sale of seasonal products at the beginning of the quarter. Over 80% of the same-store sales decline is due to lower sales of forest products, building materials and seasonal items. Paint, lighting fixtures, hardware, kitchen and installation services posted very good sales performance this quarter, reflecting caution on the part of consumers in choosing smaller renovation projects, but also the success of our promotion of pre-assembled kitchen cabinets and sales increases associated with our complementary RONAdvantage renovation tax credit incentive program.

Gross margin

In third quarter 2009, the Company's gross margin decreased from 26.97% in 2008 to 26.76% in 2009, a decline of 21 basis points, due to a higher proportion of distribution sales, which generate lower margins than retail activity. Given better terms and conditions from our suppliers and the resulting supportive effect on the growth of the network, the adjusted gross margin declined by 6 basis points, from 29.38% in 2008 to 29.32% in 2009. Excluding the unfavourable effect related to the higher proportion of distribution sales, the adjusted gross margin nevertheless improved by 11 basis points this quarter.

Margin improvements achieved through regular retail activities were reduced by the impact of seasonal product liquidations, which explains why the increase in the adjusted margin is lower than in previous quarters. These liquidations served however to reduce inventory levels, increase stock turnover and improve inventory quality.

Cost of store closures (unusual items)

As part of our extensive efficiency improvement and optimization program for the network of existing RONA stores, the Company decided in second quarter 2008 to close four underperforming stores and transfer the business volume from these stores to other nearby RONA corporate and affiliate stores. Two of these are big-box stores: one in Richmond, British Columbia, the other in Scarborough, Ontario. The two other stores are smaller stores operating under the Cashway banner in Ontario.

In total for third quarter 2009, operating income was affected by unusual items amounting to $6.0 million, mainly from the re-evaluation of commitments related to the above-mentioned closures. After taxes, unusual items for the third quarter totalled $4.1 million. In third quarter 2008, unusual costs of $9.3 million were posted, of which $8.5 million affected operating income and $0.8 million affected amortization, depreciation and financing charges. After taxes, unusual costs for third quarter 2008 were $6.4 million.

This decision allowed the Company to eliminate operating losses and transfer business volume to other corporate and affiliate stores in better locations with higher growth potential and much stronger performance.

Consolidated operating income

Operating income, including the unusual items mentioned above, amounted to $105.8 million in third quarter 2009, down $6.7 million or 6.0% from the $112.5 million posted in 2008. The EBITDA margin declined from 8.14% in 2008 to 8.01% in 2009, a drop of 13 basis points, stemming mainly from downward pressure on same-store sales.

Excluding unusual items, operating income was $111.8 million in third quarter 2009, down $9.3 million or 7.7% from the same period in 2008. The EBITDA margin declined from 8.76% in 2008 to 8.46% in 2009, a decrease of only 30 basis points despite a 5.3% decline in same-store sales.

The numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008–2011 strategic plan have helped offset the negative impact of weaker sales in the renovation-construction industry caused by low levels of consumer confidence and the results of recently opened stores that have not yet reached their full potential. In the third quarter, the PEP program helped reduce inventory levels, optimize our existing store network and reduce transportation and logistics costs.

Net earnings

Net earnings, including unusual items, for third quarter 2009 were down $3.4 million or 6.4%, at $49.1 million or $0.38 per share (diluted), compared to $52.5 million or $0.45 per share (diluted) in 2008. The factors that affected operating income also affected net earnings.

Excluding the unusual items mentioned above, net earnings were $53.3 million in third quarter 2009, or $0.41 per share (diluted), compared to $58.9 million or $0.50 per share (diluted) in 2008 – a decrease of $5.6 million or 9.6%. The average number of shares increased by 13.8 million or 11.9% compared to third quarter 2008 following a share issue completed in June. Given this rise in the average number of shares, diluted earnings per share declined by 18.0% over the quarter. The dilution effect on earnings per share related to the higher average number of shares is $0.04 per share.

ANALYSIS OF CONSOLIDATED RESULTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 27, 2009

Consolidated sales

Consolidated sales for the nine-month period ended September 27, 2009, were $3,536.4 million, down $230.1 million or 6.1% from the $3,766.5 million recorded in 2008. This decline can be attributed to the decrease in same-store sales, especially at the beginning of the year, which were affected by a low confidence among Canadian consumers, a sharp decline in the number of housing starts for single-family homes, especially in the West, and weather conditions that have been especially poor for construction and renovation activities ever since the beginning of the year. The numerous sales stimulation and customer loyalty programs introduced over the last year helped offset the decrease in numbers of in-store transactions. Given the current economic conditions, however, consumers are noticeably cautious and have been limiting themselves to smaller renovation projects so far this year.

Gross margin

In the nine-month period ended September 27, 2009, the Company's gross margin improved by 7 basis points, from 27.22% in 2008 to 27.29% in 2009. Given better terms and conditions from our suppliers and the resulting supportive effect on growth of the store network, the adjusted gross margin rose by 31 basis points, from 29.77% in 2008 to 30.08% in 2009. This growth is due to better management of product categories, increased sales of private brand products, a reduction in in-store losses ("shrink"), and further improvements in terms and conditions from our suppliers.

Cost of store closures (unusual items)

As mentioned in the analysis of our third-quarter results, as part of our extensive efficiency improvement and optimization program for the network of existing RONA stores, the Company decided in second quarter 2008 to close four underperforming stores and transfer the business volume from these stores to other nearby RONA corporate and affiliate stores. The closure of these stores led to unusual costs in the following quarters.

For the nine-month period ended September 27, 2009, operating income was affected by unusual costs totalling $14.2 million, largely related to the re-evaluation of commitments related to the closures mentioned above. After taxes, the unusual costs amounted to $9.8 million. For the corresponding period in 2008, unusual costs totalling $15.1 million were posted, of which $11.4 million affected operating income and $3.7 million affected amortization, depreciation and financing charges. After taxes, unusual costs amounted to $10.4 million in 2008.

This decision allowed the Company to eliminate operating losses and transfer business volume to other corporate and affiliate stores in better locations with higher growth potential and much stronger performance.

Consolidated operating income

Operating income, including unusual items, was $254.2 million in the nine-month period ended September 27, 2009, down $35.2 million or 12.2% from the $289.4 million recorded in 2008. The EBITDA margin declined from 7.68% in 2008 to 7.19% in 2009, a drop of 49 basis points, due largely to unusual items and downward pressure on same-store sales.

Excluding unusual items, operating income was $268.4 million in the nine-month period ended September 27, 2009, down $32.4 million or 10.8% from 2008. The EBITDA margin declined from 7.99% in 2008 to 7.59% in 2009, a drop of 40 basis points.

This decrease stems largely from current downward pressure on sales in the renovation-construction industry, due to a significant reduction in housing starts since the beginning of the year and the decline in consumer confidence. As mentioned in the analysis of third-quarter results, the numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008–2011 strategic plan have helped offset the negative impact of these factors. In the nine-month period ended September 27, 2009, the PEP program helped improve the adjusted gross margin by 31 basis points, reduce inventory levels, excluding acquisitions and new stores, by $51 million, and optimize our existing store network and distribution centres.

Net earnings

Net earnings, including unusual items for the nine-month period ended September 27, 2009, declined by 15.2% to $107.4 million or $0.88 per share (diluted), compared to $126.7 million or $1.09 per share (diluted) in 2008. The factors affecting operating income also affected net earnings. To these factors can be added higher fixed costs related to the growth of the network, including amortization related to recent store openings and investments in technology, which are expected to make positive medium- and long-term contributions to the Company. This increase was more than offset by the decrease in interest costs.

Excluding unusual items, net earnings were $117.3 million in the nine-month period ended September 27, 2009, or $0.96 per share (diluted), compared to $137.1 million or $1.18 per share (diluted) in 2008. This is a decrease of $19.8 million or 14.5%, reflecting pressure on sales in the renovation-construction industry, which could not be entirely offset by the efficiency improvement measures implemented since the beginning of the year. The average number of shares increased by 6 million or 5.2% compared to the same period in 2008, following a share issue completed in June. Given this increase in the average number of shares, the diluted earnings per share declined by 18.6% over the nine-month period ended September 27, 2009. The dilution effect on earnings per share related to the higher average number of shares is $0.04 per share.

CASH FLOWS AND FINANCIAL POSITION

Operations generated $78.7 million in third quarter 2009, compared to $81.3 million in the corresponding quarter of 2008. Net of increases in working capital, operations generated $100.1 million, down from $112.5 million in 2008. For the nine-month period ended September 27, 2009, operations generated $192.2 million, compared to $207.8 million in 2008. Net of increases in working capital, operations generated $216.7 million, down from $264.1 million in 2008.

In the third quarter of 2009, we invested $33.1 million in capital spending, compared to $39.7 million in 2008. These investments were devoted to the expansion of our retail network, including the construction of new stores as well as maintenance, renovations and upgrades of existing stores to reflect our new concepts. We also allotted part of these investments to ongoing improvements in our IT systems, in order to increase our operational efficiency. Throughout the entire quarter, the Company exercised disciplined financial management and strictly monitored investments in fixed assets. Non-core assets were also sold off during this quarter, generating an additional cash inflow of $1.9 million.

In nine months of activity, RONA invested $124.1 million in capital spending, $5.6 million less than the $129.7 million invested in 2008. RONA management plans to invest about $170 million during 2009 – $25 million or 13% less than in 2008.

RONA issued 11,630,000 shares on June 2 at a price of $12.90 per share, generating gross proceeds of $150 million. Subsequent to the exercise of the overallotment option on June 30, after the end of the second quarter, 1,744,500 additional shares were issued at a price of $12.90 per share, bringing the aggregate gross proceeds generated by the stock offering to $172.5 million, with 13,374,500 shares issued.

Proceeds of the stock issue, major cash flow generated by our operations, and disciplined management of working capital throughout this quarter allowed RONA to finance our various investment projects and still reduce bank loans and revolving credit by $42.2 million over the past nine months. On September 27, 2009, the Company's net debt was reduced by $274.0 million compared to the same date in 2008. On September 27, 2009, RONA had $216.8 million in cash and cash equivalents, which will be used over forthcoming quarters to develop various growth projects in Phase 2 of the Company's 2008–2011 strategic plan. RONA also has an undrawn committed credit facility of up to $650 million.

RONA's balance sheet is strong. On September 27, 2009, the ratio of total net debt to capital was 11.9%, compared to 26.2% at the end of the corresponding quarter in 2008. The ratio of equity to assets was 61.2% at the end of third quarter 2009, compared to 54.4% at the same date in 2008.

The Company's operations generate substantial cash flow. With relatively low debt and long-term fixed rates on most of its long-term debt, RONA also has substantial liquidity and can borrow many millions more at competitive rates.

Our financial resources are therefore sufficient to pursue disciplined development of our four growth vectors: growing sales in our existing store network, construction of new corporate and franchise stores, recruitment of new affiliate stores and acquisitions.

OUTLOOK

According to the Bank of Canada's latest *Monetary Policy Report*, recent economic indicators point to the start of a global recovery from a deep, synchronized recession. In the last months, a recovery of economic activity has also been underway in Canada. This resumption of growth is supported by monetary and fiscal stimulus, increased household wealth, improving financial conditions, higher commodity prices, and stronger business and consumer confidence. The Bank of Canada predicts that in the second half of 2009, growth will be slightly higher than anticipated in its July projections. Positive signs have been noted in our industry in recent months, particularly in the level of housing resales and average housing prices, which have been edging upward for the last few months. Although housing starts are still in decline, a change in the pace of this trend has also been observed.

The business environment is increasingly favourable to real estate activity over all. The very low mortgage rates and the popularity of the renovation tax credits should continue to stimulate renovation activity across the country. It is important to note, however, that the sharp decrease in housing starts in the last quarters will continue to put downward pressure on sales by building materials specialists and on home renovation spending, since new home buyers generally undertake major improvements in the years following their purchase of a new property.

In this economic context, we will continue in the next quarter to pursue the numerous optimization measures under the PEP program in Phase 1 of the 2008–2011 strategic plan. Given the major gains in efficiency achieved to date under the PEP program and the Company's increased financial flexibility in the wake of our issue of common shares in June, RONA management believes the Company is in an excellent position to commence Phase 2 of the 2008–2011 strategic plan as planned. We are currently finalizing plans for this second phase, which will focus on the re-acceleration of RONA's development activities in order to take full advantage of the four growth vectors that have been the wellsprings of our success for many years. Beginning in late 2009, initiatives will be launched to re-accelerate development, including the launch, on November 12, of a new concept for a highly innovative interior design and paint store.

ADDITIONAL INFORMATION

The *Management's Discussion and Analysis (MD&A)* and unaudited financial statements for the third quarter 2009 can be found in the "Investor Relations" section of the Company's website at www.rona.ca, and at www.sedar.com. The Company's Annual Report can also be found on the RONA website, along with other information about RONA, including its *Annual Information Form*, which can also be found on the SEDAR website.

TELEPHONE CONFERENCE WITH THE FINANCIAL COMMUNITY

On Tuesday, November 10, 2009, at 11:00 a.m. (EST), RONA will hold a telephone conference for the financial community. To join the conference, please call 514-861-4190 or 1 877 677-7769. To listen to the call online, please go to: http://events.startcast.com/events6/153/C0008/Default.aspx.

NON-GAAP PERFORMANCE MEASURES

In this *News Release*, as in our internal management, we use the concept of "earnings before interest, taxes, depreciation, amortization and non-controlling interest" (EBITDA), which we also refer to as "operating income." This measure corresponds to "Earnings before the following items" in our consolidated financial statements. We also use the concept of "adjusted gross margin," which corresponds to sales less the cost of goods sold, including all vendor rebates. While EBITDA does not have a definition that is standardized by GAAP, it is widely used in our industry and in financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. Adjusted gross margin is used by RONA management to analyze the profitability of our network, including all vendor rebates. Given that they are not standardized, EBITDA and adjusted gross margin cannot be strictly compared from one company to the next. However, we establish them in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time.

EBITDA and adjusted gross margin must not be considered in isolation or as substitutes for other performance measures calculated according to GAAP, but rather as additional information. While these measures do not have a meaning standardized by GAAP, the management of the Company believes they represent good indicators of the operating performance of existing activities.

FORWARD-LOOKING STATEMENTS

This *News Release* includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this *News Release*, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Company, may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. Investors and others are cautioned that undue reliance should not be placed on any forward-looking statements.

For more information on the risks, uncertainties and assumptions that would cause the Company's actual results to differ from current expectations, please also refer to the Company's public filings available at www.sedar.com and www.rona.ca. In particular, further details and descriptions of these and other factors are disclosed in the MD&A under the "Risks and uncertainties" section and in the "Risk factors" section of the Company's current Annual Information Form.

The forward-looking statements in this *News release* reflect the Company's expectations as at November 10, 2009, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

ABOUT RONA

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of nearly 700 corporate, franchise and affiliate stores of various sizes and formats. With close to 30,000 employees working under its family of banners in every region of Canada and more than 15 million square feet of retail space, the RONA store network generates over $6 billion in annual retail sales.

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THIRD QUARTER 2009

13-WEEK AND 39-WEEK PERIODS ENDED SEPTEMBER 27, 2009

RONA inc. ("RONA," "we" or the "Company") is Canada's leading retailer and distributor of hardware, home renovation and gardening products. The Company operates or serves a network that includes close to 700 corporate, franchise and affiliate stores, as well as nine hardware and building materials distribution centres.

RONA's sales include:

- Retail sales generated by its corporate stores
- Royalties on franchise retail sales
- A share of retail sales generated by franchise stores in which RONA holds an interest
- Wholesale sales generated by franchise stores (net of RONA's share in these stores)
- Wholesale sales generated by affiliate dealer-owned stores

FINANCIAL STATEMENTS

RONA's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars. RONA has filed its unaudited consolidated financial statements with the Canadian Securities Administrators for the 13-week and 39-week periods ended September 27, 2009. These statements can be viewed online at www.sedar.com or on RONA's website at www.rona.ca. This *Management's Discussion and Analysis ("MD&A")* should be read in conjunction with the Company's financial statements and related notes.

NON-GAAP PERFORMANCE MEASURES

In this report, as in our internal management, we use the concept of "earnings before interest, taxes, depreciation, amortization and non-controlling interest" (EBITDA), which we also refer to as "operating income." This measure corresponds to "Earnings before the following items" in our consolidated financial statements. We also use the concept of "adjusted gross margin," which corresponds to sales less the cost of goods sold, including all vendor rebates.

While EBITDA does not have a definition that is standardized by GAAP, it is widely used in our industry and in financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. Adjusted gross margin is used by RONA management to analyze the profitability of our network, including all vendor rebates. Given that they are not standardized, EBITDA and adjusted gross margin cannot be strictly compared from one company to the next. However, we establish them in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time. EBITDA and adjusted gross margin must not be considered in isolation or as substitutes for other performance measures calculated according to GAAP, but rather as additional information.

New accounting standard

Readers of this MD&A will note the adoption of a new accounting standard in the first quarter of 2009, which restated the results presented in 2008.

At the beginning of 2009 the Company retroactively adopted Section 3064 of the Canadian Institute of Chartered Accountants' (CICA) Handbook, *Goodwill and intangible assets*, which replaces Section 3062 of the same title. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally generated intangible assets. Pre-opening expenses for stores and distribution centres (previously included in Other Assets), advertising costs, including those related to store openings, and costs incurred for Olympic and Paralympic sponsorship (previously included in Prepaid Expenses) no longer meet the requirements of the new section. The balances in these asset accounts as at December 31, 2007 – that is, at the beginning of first quarter 2008 – were restated and included in Retained Earnings and the results of operations in 2008 were also restated to conform to the 2009 presentation.

In summary, operating income for third quarter 2008 has been reduced by $3.0 million, amortization and depreciation by $1.8 million and net earnings by $0.9 million, a total reduction of $0.01 per share. For the nine-month period ended September 28, 2008, operating income was reduced by $16.8 million, amortization and depreciation by $5.6 million and net earnings by $7.8 million, a total reduction of $0.06 per share.

Prepaid expenses were also reduced by $36.2 million, other assets by $2.8 million and opening retained earnings by $20.5 million. The detailed impact of applying these new recommendations during the first period of application of Section 3064 is explained on page 15 of this report and in Note 2 of the Consolidated Financial Statements.

Update on the Company's strategic orientation

RONA's 2008–2011 strategic plan was presented to the financial community during Investors Day on February 27, 2008 in Montreal. A news release outlining the issues and objectives of the plan was also published that day. RONA management made a commitment to provide quarterly updates of the plan's progress in its management report and an annual update in its annual report and at its annual general meeting.

<u>Achievements in third quarter 2009</u>

The following section highlights quarterly achievements related to the implementation of various initiatives under Phase 1 of the plan – that is, the PEP program (productivity, efficiency, profitability) – grouped into four main projects.

5. Improve the profitability of our corporate store network:
    - Consolidated gross margin decreased by 21 basis points in the third quarter due to a greater proportion of distribution sales, which generate lower margins than retail activities. Given better terms and conditions from our suppliers and the resulting supportive effect on growth of the network, the adjusted gross margin shrank by 6 basis points. Excluding the unfavourable effect related to the higher proportion of distribution sales, the adjusted gross margin improved by 11 basis points. Margin increases achieved through regular retail activities were reduced by the impact of liquidating seasonal products, which explains why the increase in the adjusted margin is lower than in previous quarters. The liquidation served, however, to reduce inventory levels, increase stock rotation rates and improve inventory quality.
    - Our turnaround plan for underperforming stores has produced very good results, as these stores have posted relatively higher increases in sales and operating income than the network as a whole during this quarter.

6. Optimize the supply chain:
   - Same-store and distribution centre inventories were reduced by $51 million or 6.0% in third quarter 2009 (excluding acquisitions and new stores) compared to third quarter 2008, resulting in lower operating costs and financing charges. Including acquisitions and new stores, inventories were reduced by $38 million.
   - Reduced transportation costs and ongoing improvements in demand management resulted in a reduction of nearly $1 million in logistics costs in third quarter 2009.

7. Accelerate recruitment of independent dealer-owners:
   - Since the beginning of the year, a total of 12 dealer-owners have been recruited, representing estimated annual retail sales of over $30 million.
   - RONA dealer-owners have been very busy this year, completing 42 expansion and renovation projects totalling nearly $40 million in investments.
   - Jean-Luc Meunier was appointed senior vice president, affiliate dealer-owner network development. Mr. Meunier reports directly to the Company's president and CEO, Robert Dutton, and sits on the executive committee. At RONA, Mr. Meunier's team is in charge of recruitment and development of the affiliate dealer-owner network and dealer support.

8. Improve sales and increase customer loyalty across the RONA network:
   - A major increase in applications for the RONAdvantage program, which provides rebates in the form of gift certificates to a maximum of $1,000 as a complementary incentive under the new renovation tax credit programs. Over 10,000 applications representing renovation projects worth more than $100 million have been received to date across the RONA network. RONA estimates close to 75% of these projects have been completed. RONAdvantage is the industry's only ongoing complementary incentive program to the renovation tax credits.
   - The success of RONAdvantage has also had a major positive effect on the number of new RONA VISA Desjardins credit cards issued since the beginning of the year (over 15% growth), on the volume of financing (over 50% growth), on installation services (over 15% growth) and on the use of the RONA Project Guides to help carry out these renovation projects.
   - Increased penetration by RONA private brand and controlled-label products to over 19% in the third quarter, despite a slight decrease in sales.
   - Launch of RONA ECO paint, a line of recovered/recycled paint available in 16 fashion colours throughout the RONA store network in Canada.
   - Over 15% growth in commercial and professional sales for big-box stores in Ontario, thanks to close cooperation with the specialized sales team in our Commercial and Professional Market Division.
   - Same-store sales growth for Noble Trade Plumbing Supplies, despite a declining market.
   - Opening of two new 52,000-square-foot proximity stores, one under the TOTEM Building Supplies banner in Strathmore, Alberta, and one under the RONA banner in Saint-Georges, Quebec. These concepts, which are improved with each new opening, are highly promising as vehicles for growth in the years ahead. They offer a very good balance between the product variety of the big-box stores and the expertise of smaller stores. These are the first two RONA stores to seek LEED certification (Leadership in Energy and Environmental Design). LEED is an environmental evaluation system for new buildings.
   - Signature of an exclusive partnership agreement with Maple Leaf Sports & Entertainment Ltd. that includes permanent, camera-visible RONA branding during these teams' home games at Air Canada Centre and Ricoh Coliseum, including on-ice RONA logos. Under this agreement, RONA will also enjoy exclusive opportunities to offer customers in our stores a chance to win tickets to Leafs, Raptors and Marlies games.
   - Launch of a new English-language reality TV show, *My RONA Home.* The first episode of the 10-show series was broadcast on Citytv on Sunday, October 4.
   - Launch of a new multi-platform advertising campaign for RONA's 70th anniversary, including major discounts on selected items, thousands of Air Miles™ rewards, draws for trips to the 2010 Winter Olympic Games in Vancouver and a variety of other prizes.

Economic conditions

According to the *Monetary Policy Report* published by the Bank of Canada in October, recent economic indicators point to the start of a global recovery from a deep, synchronized recession. In the last months, a recovery of economic activity has also been underway in Canada. This resumption of growth is supported by monetary and fiscal stimulus, increased household wealth, improving financial conditions, higher commodity prices, and stronger business and consumer confidence. However, heightened volatility and persistent strength in the Canadian dollar are working to slow growth and subdue inflation pressures. The current strength in the dollar is expected, over time, to more than fully offset the favourable developments since July. Given all of these factors, the Bank now projects that, compared to expectations in July, the composition of aggregate demand will shift further towards final domestic demand and away from net exports. Growth is expected to be slightly higher in the second half of this year than previously projected but will be slightly lower on average over the remainder of 2010 and 2011. The Canadian economy is projected to grow by 3.0% in 2010 and 3.3% in 2011, after a contraction of 2.4% in 2009. This means a somewhat more modest recovery in Canada than observed on average in previous economic cycles. In light of this new forecast, the Bank reiterated its conditional commitment to maintain its target overnight rate at the current level of 0.25% until the end of the second quarter of 2010.

Positive signs have been reported over the past few months, particularly in terms of home resales and average home prices. A slowing of the downward trend for housing starts has also been observed. More specifically, according to statistics published by the Canada Real Estate Association, home resales in third quarter 2009 totalled 135,182 units. The number of transactions was up 18% from the third quarter of last year, representing the biggest year-over-year increase since early 2002. The residential average price also increased by 10.8% in third quarter 2009 compared to 2008. These two statistics indicate a major turnaround in activity during the third quarter, given that existing home resales were down 1.6% since the beginning of the year, and average prices were up only 1.9%. The CREA had predicted decreases for both of these indicators in 2009.

In terms of housing starts, the weakness continued over the third quarter, but the rate of decline was lower than in the previous quarters. Since the beginning of the year, single-family home starts have decreased by 30.5%, compared to only 17.0% in the third quarter. This decline continues to affect the performance of building materials specialists, especially in the western part of the country. Overall, the business environment is increasingly favourable to real estate activity. Very low mortgage rates and the popularity of the federal and provincial renovation tax credits should also continue to stimulate renovation activity over the coming quarters. It is important to note, however, that the sharp decrease in housing starts in recent quarters will continue to put downward pressure on sales by building materials specialists and on home renovation spending, since new home buyers generally undertake major improvements in the months and years following their purchase of a new property.

Finally, the fundamentals are still positive for renovation in Canada, since more than 65% of existing dwellings are over 25 years old and need maintenance and repair work. Baby-boomers, who represent roughly 30% of the population, are investing heavily in their homes and secondary residences. There is still plenty of interest in interior decorating and gardening, as well. Last but not least, next-generation Canadians are looking for one-stop solutions for their renovation projects and outstanding service in a friendly store near their home. RONA is watching all these different trends closely as we develop new store formats and concepts, select our products and product categories, and develop innovative services in order to be ready to move forward rapidly when the economy recovers.

Consolidated sales

Consolidated sales for third quarter 2009 were $1,320.5 million, down $61.2 million or 4.4% from the $1,381.7 million posted in 2008. This decline is largely the result of a 5.3% decrease in same-store sales in the corporate and franchise sector, while sales in the distribution sector were down 1.6%.

This decline in same-store sales is due mainly to a drop in housing starts in recent quarters, putting downward pressure on sales by building materials specialists and on home renovation spending, since new home buyers generally undertake major improvements in the months and years following their purchase of a new property. The decline can also be attributed to low confidence among Canadian consumers – still lagging behind last year, despite some recent improvement. Finally, weather conditions once again were particularly unfavourable for the sale of seasonal products at the beginning of the quarter. Over 80% of the same-store sales decline is due to lower sales of forest products, building materials and seasonal items. Paint, lighting fixtures, hardware, kitchen and installation services posted very good sales performance this quarter, reflecting not only caution on the part of consumers in choosing smaller renovation projects, but also the success of our promotion of pre-assembled kitchen cabinets and sales increases associated with our complementary RONAdvantage renovation tax credit incentive program.

Gross margin

In third quarter 2009, the Company's gross margin decreased from 26.97% in 2008 to 26.76% in 2009, a decline of 21 basis points, due to a higher proportion of distribution sales, which generate lower margins than retail activity. Given better terms and conditions from our suppliers and the resulting supportive effect on the growth of the network, the adjusted gross margin declined by 6 basis points, from 29.38% in 2008 to 29.32% in 2009. Excluding the unfavourable effect related to the higher proportion of distribution sales, the adjusted gross margin nevertheless improved by 11 basis points this quarter.

Margin improvements achieved through regular retail activities were reduced by the impact of seasonal product liquidations, which explains why the increase in the adjusted margin is lower than in previous quarters. These liquidations served however to reduce inventory levels, increase stock turnover and improve inventory quality.

Cost of store closures (unusual items)

As part of our extensive efficiency improvement and optimization program for the network of existing RONA stores, the Company decided in second quarter 2008 to close four underperforming stores and transfer the business volume from these stores to other nearby RONA corporate and affiliate stores. Two of these are big-box stores: one in Richmond, British Columbia, the other in Scarborough, Ontario. The two other stores are smaller stores operating under the Cashway banner in Ontario.

In total for third quarter 2009, operating income was affected by unusual items amounting to $6.0 million, mainly from the re-evaluation of commitments related to the above-mentioned closures. After taxes, unusual items for the third quarter totalled $4.1 million. In third quarter 2008, unusual costs of $9.3 million were posted, of which $8.5 million affected operating income and $0.8 million affected amortization, depreciation and financing charges. After taxes, unusual costs for third quarter 2008 were $6.4 million.

This decision allowed the Company to eliminate operating losses and transfer business volume to other corporate and affiliate stores in better locations with higher growth potential and much stronger performance.

Consolidated operating income

Operating income, including the unusual items mentioned above, amounted to $105.8 million in third quarter 2009, down $6.7 million or 6.0% from the $112.5 million posted in 2008. The EBITDA margin declined from 8.14% in 2008 to 8.01% in 2009, a drop of 13 basis points, stemming mainly from downward pressure on same-store sales.

Excluding unusual items, operating income was $111.8 million in third quarter 2009, down $9.3 million or 7.7% from the same period in 2008. The EBITDA margin declined from 8.76% in 2008 to 8.46% in 2009, a decrease of only 30 basis points despite a 5.3% decline in same-store sales.

The numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008–2011 strategic plan have helped offset the negative impact of weaker sales in the renovation-construction industry caused by low levels of consumer confidence and the results of recently opened stores that have not yet reached their full potential. In the third quarter, the PEP program helped reduce inventory levels, optimize our existing store network and reduce transportation and logistics costs.

Interest, amortization and depreciation

RONA’s interest expenses on long-term debt and bank loans for third quarter 2009 were reduced by $1.3 million, or 18.0%, compared to third quarter 2008. This decline is attributable to highly disciplined management of our balance sheet and capital investments, resulting in lower debt levels. The proceeds of the June 2009 stock issue also helped reduce the Company’s debt levels in this quarter.

Amortization and depreciation costs for third quarter 2009 totalled $25.9 million, compared to $25.8 million in 2008, an increase of $0.1 million or 0.4% over 2008. However, $0.7 million was posted in third quarter 2008 in relation to the closures of underperforming stores. Excluding this amount, third quarter 2008 amortization and depreciation costs were $25.1 million. Using this figure, third quarter 2009 amortization and depreciation costs were $0.8 million or 3.2% higher than in 2008. This increase stems from new corporate store openings, the renovation program for existing corporate stores, and ongoing improvements to our information systems.

Net earnings

Net earnings, including unusual items, for third quarter 2009 were down $3.4 million or 6.4%, at $49.1 million or $0.38 per share (diluted), compared to $52.5 million or $0.45 per share (diluted) in 2008. The factors that affected operating income also affected net earnings.

Excluding the unusual items mentioned above, net earnings were $53.3 million in third quarter 2009, or $0.41 per share (diluted), compared to $58.9 million or $0.50 per share (diluted) in 2008 – a decrease of $5.6 million or 9.6%. The average number of shares increased by 13.8 million or 11.9% compared to third quarter 2008 following a share issue completed in June. Given this rise in the average number of shares, diluted earnings per share declined by 18.0% over the quarter. The dilution effect on earnings per share related to the higher average number of shares is $0.04 per share.

ANALYSIS OF SEGMENT RESULTS

RONA has two reportable segments: distribution, and corporate and franchise stores.

RONA: Key segment figures for the quarter ended September 27, 2009

(In thousands of dollars)	Third quarter 2009	Third quarter 2008	$ change from Q3 2008	% change from Q3 2008
Segment sales				
Corporate and franchise stores	1,005,738	1,061,863	(56,125)	(5.3%)
Distribution	620,492	635,271	(14,779)	(2.3%)
Total	1,626,230	1,697,134	(70,904)	(4.2%)
Intersegment sales and royalties				
Corporate and franchise stores	-	-	-	-
Distribution	(305,720)	(315,412)	9,692	(3.1%)
Total	(305,720)	(315,412)	9,692	(3.1%)
Sales				
Corporate and franchise stores	1,005,738	1,061,863	(56,125)	(5.3%)
Distribution	314,772	319,859	(5,087)	(1.6%)
Total	1,320,510	1,381,722	(61,212)	(4.4%)
Operating income				
Corporate and franchise stores	83,400	89,686	(6,286)	(7.0%)
Distribution	22,415	22,827	(412)	(1.8%)
Total	105,815	112,513	(6,698)	(6.0%)
Operating income (excluding unusual items)				
Corporate and franchise stores	89,354	98,211	(8,857)	(9.0%)
Distribution	22,415	22,827	(412)	(1.8%)
Total	111,769	121,038	(9,269)	(7.7%)
EBITDA margin				
Corporate and franchise stores	8.29 %	8.45 %	-	-16 b.p.
Distribution	7.12 %	7.14 %	-	-2 b.p.
Total	8.01 %	8.14 %	-	-13 b.p.
EBITDA margin (excluding unusual items)				
Corporate and franchise stores	8.88 %	9.25 %	-	-37 b.p.
Distribution	7.12 %	7.14 %	-	-2 b.p.
Total	8.46 %	8.76 %	-	-30 b.p.

Corporate and franchise stores

For third quarter 2009, sales in the corporate and franchise store sector were $1,005.7 million, a decrease of $56.1 million or 5.3% from 2008. As mentioned in the discussion of consolidated results, this decrease is the result of a 5.3% decline in same-store sales, due to lower numbers of housing starts over recent quarters, low confidence among Canadian consumers and unfavourable weather conditions.

Over 80% of the drop in same-store sales can be attributed to the lower sales of forest products, building materials, tools and seasonal items. Paint, lighting fixtures, hardware, kitchen and installation services posted very good sales performance this quarter, reflecting not only caution on the part of consumers in choosing smaller renovation projects, but also the success of our promotion of pre-assembled kitchen cabinets and sales increases associated with our complementary RONAdvantage renovation tax credits incentive program. Sales of RONA private brand and controlled-label products posted higher performance than same-store sales, increasing the penetration rate of the RONA private brand and controlled labels to over 19%, compared to 17% in 2008. New products were also launched this quarter, including RONA ECO paint, a line of recovered/recycled paint available in 16 fashion colours throughout the RONA store network.

RONA's customer loyalty and sales stimulation activities, combined with employee efforts to deliver the best service and best shopping experience in our industry, helped limit the decreases in numbers of in-store transactions. Given the low level of consumer confidence, our customers seem to have limited themselves to smaller renovation projects this quarter, leading to downward pressure on the size of the average shopping basket.

In the third quarter, RONA pursued the implementation of our proximity store concept by opening two new 52,000-square-foot stores, one under the TOTEM Building Suppliers banner, in Strathmore, Alberta, and one under the RONA banner, in Saint-Georges, Quebec.

Finally, commercial and professional sales for big-box stores in Ontario increased by over 15% thanks to close cooperation with the specialized sales team in our Commercial and Professional Market Division. The Noble Trade plumbing speciality stores also continued to grow, despite declining activity in the industry.

Operating income from retail activities, including unusual items related to the cost of store closures mentioned in our discussion of consolidated results, was $83.4 million, compared to $89.7 million in third quarter 2008. The EBITDA margin from retail activities decreased by 16 basis points from 8.45% in 2008 to 8.29% in 2009.

Excluding unusual items, operating income was $89.4 million in third quarter 2009, down $8.9 million or 9.0% from 2008. The EBITDA margin shrank from 9.25% in 2008 to 8.88% in 2009, a decrease of only 37 basis points, despite a 5.3% decline in same-store sales. The numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008–2011 strategic plan have helped partly offset the negative impacts related to downward pressure on sales. In the retail sector, the PEP program also helped improve our gross margin, optimize our network of existing stores and improve the process for opening new stores.

Distribution

Net of intersegment activities, distribution sales declined 1.6% to $314.8 million in third quarter 2009, compared to $319.9 million in 2008. The source of this decline is a slight decrease in same-store sales among our affiliates, especially those with a high proportion of building materials, which could not be offset by the recruitment of new independent dealer-owners. Like corporate stores, affiliate dealer-owner sales were affected by the decrease in housing starts.

Distribution sales generated $22.4 million in operating income in third quarter 2009, compared to $22.8 million in 2008, a decrease of only $0.4 million or 1.8%. The EBITDA margin shrank by 2 basis points. The reduced income related to lower business volume was offset by lower transportation costs and the optimization of volume and distribution channels achieved this quarter.

ANALYSIS OF CONSOLIDATED RESULTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 27, 2009

Consolidated sales

Consolidated sales for the nine-month period ended September 27, 2009, were $3,536.4 million, down $230.1 million or 6.1% from the $3,766.5 million recorded in 2008. This decline can be attributed to the decrease in same-store sales, especially at the beginning of the year, which were affected by a low confidence among Canadian consumers, a sharp decline in the number of housing starts for single-family homes, especially in the West, and weather conditions that have been especially poor for construction and renovation activities ever since the beginning of the year. The numerous sales stimulation and customer loyalty programs introduced over the last year helped offset the decrease in numbers of in-store transactions. Given the current economic conditions, however, consumers are noticeably cautious and have been limiting themselves to smaller renovation projects so far this year.

Gross margin

In the nine-month period ended September 27, 2009, the Company's gross margin improved by 7 basis points, from 27.22% in 2008 to 27.29% in 2009. Given better terms and conditions from our suppliers and the resulting supportive effect on growth of the store network, the adjusted gross margin rose by 31 basis points, from 29.77% in 2008 to 30.08% in 2009. This growth is due to better management of product categories, increased sales of private brand products, a reduction in in-store losses ("shrink"), and further improvements in terms and conditions from our suppliers.

Cost of store closures (unusual items)

As mentioned in the analysis of our third-quarter results, as part of our extensive efficiency improvement and optimization program for the network of existing RONA stores, the Company decided in second quarter 2008 to close four underperforming stores and transfer the business volume from these stores to other nearby RONA corporate and affiliate stores. The closure of these stores led to unusual costs in the following quarters.

For the nine-month period ended September 27, 2009, operating income was affected by unusual costs totalling $14.2 million, largely related to the re-evaluation of commitments related to the closures mentioned above. After taxes, the unusual costs amounted to $9.8 million. For the corresponding period in 2008, unusual costs totalling $15.1 million were posted, of which $11.4 million affected operating income and $3.7 million affected amortization, depreciation and financing charges. After taxes, unusual costs amounted to $10.4 million in 2008.

This decision allowed the Company to eliminate operating losses and transfer business volume to other corporate and affiliate stores in better locations with higher growth potential and much stronger performance.

Consolidated operating income

Operating income, including unusual items, was $254.2 million in the nine-month period ended September 27, 2009, down $35.2 million or 12.2% from the $289.4 million recorded in 2008. The EBITDA margin declined from 7.68% in 2008 to 7.19% in 2009, a drop of 49 basis points, due largely to unusual items and downward pressure on same-store sales.

Excluding unusual items, operating income was $268.4 million in the nine-month period ended September 27, 2009, down $32.4 million or 10.8% from 2008. The EBITDA margin declined from 7.99% in 2008 to 7.59% in 2009, a drop of 40 basis points.

This decrease stems largely from current downward pressure on sales in the renovation-construction industry, due to a significant reduction in housing starts since the beginning of the year and the decline in consumer confidence. As mentioned in the analysis of third-quarter results, the numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008–2011 strategic plan have helped offset the negative impact of these factors. In the nine-month period ended September 27, 2009, the PEP program helped improve the adjusted gross margin by 31 basis points, reduce inventory levels, excluding acquisitions and new stores, by $51 million, and optimize our existing store network and distribution centres.

Interest, amortization and depreciation

RONA's interest expenses on long-term debt and bank loans for the nine-month period ended September 27, 2009 decreased by $6.6 million or 27.3% to $17.4 million, compared to $24.0 million in 2008. This drop can be attributed to highly disciplined management of our balance sheet and capital investments, resulting in lower debt levels. Proceeds from the June 2009 stock issue also helped reduced the Company's debt levels during this quarter.

Amortization and depreciation costs were $77.4 million, compared to $76.3 million in 2008, an increase of $1.1 million. However, $3.3 million was posted in 2008 in relation to the closures of underperforming stores. Excluding this amount, amortization and depreciation costs were $73.0 million in 2008. Using this figure, amortization costs for the nine-month period ended September 27, 2009, were $4.4 million, 6.0% higher than in 2008. This increase stems from new corporate store openings, the renovation program for existing corporate stores, and ongoing improvements to our information systems.

Net earnings

Net earnings, including unusual items for the nine-month period ended September 27, 2009, declined by 15.2% to $107.4 million or $0.88 per share (diluted), compared to $126.7 million or $1.09 per share (diluted) in 2008. The factors affecting operating income also affected net earnings. To these factors can be added higher fixed costs related to the growth of the network, including amortization related to recent store openings and investments in technology, which are expected to make positive medium and long-term contributions to the Company. This increase was more than offset by the decrease in interest costs.

Excluding unusual items, net earnings were $117.3 million in the nine-month period ended September 27, 2009, or $0.96 per share (diluted), compared to $137.1 million or $1.18 per share (diluted) in 2008. This is a decrease of $19.8 million or 14.5%, reflecting pressure on sales in the renovation-construction industry, which could not be entirely offset by the efficiency improvement measures implemented since the beginning of the year. The average number of shares increased by 6 million or 5.2% compared to the same period in 2008, following a share issue completed in June. Given this increase in the average number of shares, the diluted earnings per share declined by 18.6% over the nine-month period ended September 27, 2009. The dilution effect on earnings per share related to the higher average number of shares is $0.04 per share.

ANALYSIS OF SEGMENT RESULTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 27, 2009

RONA: Key segment figures, for the nine-month period ended September 27, 2009

(In thousands of dollars)	Year-to-date 2009	Year-to-date 2008	$ Change from 2008	% Change from 2008
Segment sales				
Corporate and franchise stores	2,662,923	2,874,911	(211,988)	(7.4%)
Distribution	1,790,575	1,843,654	(53,079)	(2.9%)
Total	4,453,498	4,718,565	(265,067)	(5.6%)
Intersegment sales and royalties				
Corporate and franchise stores	-	-	-	-
Distribution	(917,071)	(952,055)	34,984	(3.7%)
Total	(917,071)	(952,055)	34,984	(3.7%)
Sales				
Corporate and franchise stores	2,662,923	2,874,911	(211,988)	(7.4%)
Distribution	873,504	891,599	(18,095)	(2.0%)
Total	3,536,427	3,766,510	(230,083)	(6.1%)
Operating income				
Corporate and franchise stores	189,773	226,353	(36,580)	(16.2%)
Distribution	64,410	63,084	1,326	2.1%
Total	254,183	289,437	(35,254)	(12.2%)
Operating income (excluding unusual items)				
Corporate and franchise stores	203,965	237,722	(33,757)	(14.2%)
Distribution	64,410	63,084	1,326	2.1%
Total	268,375	300,806	(32,431)	(10.8%)
EBITDA margin				
Corporate and franchise stores	7.13 %	7.87 %	-	-74 b.p.
Distribution	7.37 %	7.08 %	-	+29 b.p.
Total	7.19 %	7.68 %	-	-49 b.p.
EBITDA margin (excluding unusual items)				
Corporate and franchise stores	7.66 %	8.27 %	-	-61 b.p.
Distribution	7.37 %	7.08 %	-	+29 b.p.
Total	7.59 %	7.99 %	-	-40 b.p.

Corporate and franchise stores

For the nine-month period ended September 27, 2009, sales from the corporate and franchise store sector amounted to $2,662.9 million, compared to $2,874.9 million for the corresponding period in 2008. This decrease of $212.0 million or 7.4% can be attributed to weaker same-store sales, especially early in the new year, due to low consumer confidence, a sharp decline in housing starts, especially in the West, and weather conditions that have been poor for renovation-construction activities and sales of seasonal products ever since the beginning of 2009. The many sales stimulation and customer loyalty programs implemented in the last year helped limit the decreases in numbers of in-store transactions, but given the current economic situation, consumers are noticeably cautious and have been limiting themselves to smaller renovation projects so far this year.

Operating income from retail activities was $189.8 million, compared to $226.4 million in 2008. Despite a higher gross margin and other efficiency gains, the EBITDA margin for retail activities shrank by 74 basis points, from 7.87% in 2008 to 7.13% in 2009. Excluding unusual items related to store closure costs, operating income was $204.0 million in the nine-month period ended September 27, 2009, down $33.8 million or 14.2% from the $237.7 million recorded in 2008. The EBITDA margin declined from 8.27% in 2008 to 7.66% in 2009, a decrease of only 61 basis points, despite a 6.4% decrease in same-store sales. As mentioned in the analysis of third-quarter results, the numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008–2011 strategic plan have helped offset a great deal of the pressure on EBITDA margin from lower same-store sales.

Distribution

Net of intersegment activities, distribution sales declined 2.0% to $873.5 million for the nine-month period ended September 27, 2009, compared to $891.6 million in 2008. The source of this decline is a drop in same-store sales among our affiliates, which could not be offset by the recruitment of new independent dealer-owners. As with our corporate stores, our affiliate dealer-owner sales were affected by the decrease in housing starts, especially in the West.

Since the beginning of the year, a total of 12 dealer-owners have been recruited, representing estimated annual retail sales of over $30 million. RONA dealer-owners have been very busy this year, completing 42 expansion and renovation projects totalling nearly $40 million in investments.

Distribution activities resulted in operating income of $64.4 million in the nine-month period ended September 27, 2009, compared to $63.1 million in 2008, an increase of $1.3 million or 2.1%. The EBITDA margin increased by 29 basis points. The increase in operating income and EBITDA margin stems mainly from a reduction in transportation costs, optimization of trailer transportation volumes and improved productivity in our distribution centres.

CASH FLOWS AND FINANCIAL POSITION

Operations generated $78.7 million in third quarter 2009, compared to $81.3 million in the corresponding quarter of 2008. Net of increases in working capital, operations generated $100.1 million, down from $112.5 million in 2008. For the nine-month period ended September 27, 2009, operations generated $192.2 million, compared to $207.8 million in 2008. Net of increases in working capital, operations generated $216.7 million, down from $264.1 million in 2008.

In the third quarter of 2009, we invested $33.1 million in capital spending, compared to $39.7 million in 2008. These investments were devoted to the expansion of our retail network, including the construction of new stores as well as maintenance, renovations and upgrades of existing stores to reflect our new concepts. We also allotted part of these investments to ongoing improvements in our IT systems, in order to increase our operational efficiency. Throughout the entire quarter, the Company exercised disciplined financial management and strictly monitored investments in fixed assets. Non-core assets were also sold off during this quarter, generating an additional cash inflow of $1.9 million.

In nine months of activity, RONA invested $124.1 million in capital spending, $5.6 million less than the $129.7 million invested in 2008. RONA management plans to invest about $170 million during 2009 – $25 million or 13% less than in 2008.

RONA issued 11,630,000 shares on June 2 at a price of $12.90 per share, generating gross proceeds of $150 million. Subsequent to the exercise of the overallotment option on June 30, after the end of the second quarter, 1,744,500 additional shares were issued at a price of $12.90 per share, bringing the aggregate gross proceeds generated by the stock offering to $172.5 million, with 13,374,500 shares issued.

Proceeds of the stock issue, major cash flow generated by our operations, and disciplined management of working capital throughout this quarter allowed RONA to finance our various investment projects and still reduce bank loans and revolving credit by $42.2 million over the past nine months. On September 27, 2009, the Company's net debt was reduced by $274.0 million compared to the same date in 2008. On September 27, 2009, RONA had $216.8 million in cash and cash equivalents, which will be used over forthcoming quarters to develop various growth projects in Phase 2 of the Company's 2008–2011 strategic plan. RONA also has an undrawn committed credit facility of up to $650 million.

The table below shows a synopsis of the Company's contractual obligations as at September 27, 2009, including off-balance-sheet operating lease agreements used in the normal course of business. The Company has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed mortgage loans), which do not appear in the table below. The Company guarantees mortgages for an amount of $1.4 million. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is $5.7 million. Pursuant to the terms of inventory repurchase agreements, the Company is committed to financial institutions to buy back the inventory of certain customers at an average of 62% of the cost of the inventory, to a maximum of $73.0 million. In the event of recourse, this inventory would be sold in the normal course of the Company's operations. These agreements have undetermined periods but may be cancelled by the Company on 30 days' notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low. Finally, import letters of credit totalling nearly $12 million were in circulation at the end of the quarter for the purchase of a variety of products (mainly seasonal).

RONA: Contractual obligations by term
(as at September 27, 2009)

Contractual obligations	Payments by term (thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 years and more
Long-term loans	434,676	4,882	15,463	8,938	405,393
Obligations under capital leases	7,964	3,674	3,403	806	81
Operating and other leases	1,163,568	120,293	229,179	195,078	619,018
Other long-term obligations	25,495	15,320	8,663	1,512	-
Total	1,631,703	144,169	256,708	206,334	1,024,492

RONA: Outstanding shares
As at October 31, 2009

Common shares	129,653,050
Unexercised options	1,906,119
Total	131,559,169

RONA's balance sheet is strong. On September 27, 2009, the ratio of total net debt to capital was 11.9%, compared to 26.2% at the end of the corresponding quarter in 2008. The ratio of equity to assets was 61.2% at the end of third quarter 2009, compared to 54.4% at the same date in 2008.

The Company's operations generate substantial cash flow. With relatively low debt and long-term fixed rates on most of its long-term debt, RONA also has substantial liquidity and can borrow many millions more at competitive rates. Our financial resources are therefore sufficient to pursue disciplined development of our four growth vectors: growing sales in our existing store network, construction of new corporate and franchise stores, recruitment of new affiliate stores and acquisitions.

QUARTERLY INFORMATION

RONA's results fluctuate significantly from one quarter to another due to the highly seasonal nature of renovation-construction activities. The strongest periods of the year are in spring and fall, and over 80% of the Company's net annual earnings are generated in the second and third quarters. Furthermore, sales in the first quarter are always lower than in the other three, due to low activity levels in the renovation-construction sector during the winter. Poor weather conditions can also have a major impact on sales. With the increase in the proportion of our activities related to the corporate store and franchise segment, the seasonal impact of the first quarter has been more pronounced in 2007, 2008 and 2009 than in previous years. The second quarter is always the strongest of the year, followed by the third.

RONA: Consolidated quarterly financial results
(In millions of dollars, except earnings per share)

	2009			2008 (restated)				2007 (not restated)	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	1,320.5	1,369.9	846.0	1,124.6	1,381.7	1,473.3	911.5	1,087.0	1,350.5
Operating income	105.8	122.9	25.5	75.3	112.5	150.3	26.6	75.9	121.6
Operating income (ex. unusual items)	111.8	131.1	25.5	76.2	121.0	153.1	26.6	75.9	121.6
Net earnings (net loss)	49.1	60.8	(2.5)	29.8	52.5	76.6	(2.4)	30.5	59.4
Net earnings (net loss) (ex. unusual items)	53.3	66.5	(2.5)	30.4	58.9	80.6	(2.4)	30.5	59.4
Earnings (loss) per share ($)	0.38	0.51	(0.02)	0.26	0.45	0.66	(0.02)	0.26	0.52
Earnings (loss) per share ($) (ex. unusual items)	0.41	0.56	(0.02)	0.26	0.51	0.70	(0.02)	0.26	0.52
Diluted earnings (loss) per share ($)	0.38	0.51	(0.02)	0.25	0.45	0.66	(0.02)	0.26	0.51
Diluted earnings (loss) per share ($) (ex. unusual items)	0.41	0.55	(0.02)	0.26	0.50	0.69	(0.02)	0.26	0.51

Note: Results from 2008 have been restated to reflect the application of Section 3064 *Goodwill and intangible assets* of the Canadian Institute of Chartered Accountants' (CICA) Handbook.

Annual growth in same-store sales
Last nine quarters

Q3-2007	Q4-2007	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009	Q2-2009	Q3-2009
-0.6%	-2.5%	-7.0%	-4.9%	-3.5%	-1.4%	-8.5%	-6.2%	-5.3%

Note: Same-store sales have been restated for 2007 and 2008 to reflect sales without adjustment for holidays and materials deflation.

OUTLOOK

According to the Bank of Canada's latest *Monetary Policy Report*, recent economic indicators point to the start of a global recovery from a deep, synchronized recession. In the last months, a recovery of economic activity has also been underway in Canada. This resumption of growth is supported by monetary and fiscal stimulus, increased household wealth, improving financial conditions, higher commodity prices, and stronger business and consumer confidence. The Bank of Canada predicts that in the second half of 2009, growth will be slightly higher than anticipated in its July projections. Positive signs have been noted in our industry in recent months, particularly in the level of housing resales and average housing prices, which have been edging upward for the last few months. Although housing starts are still in decline, a change in the pace of this trend has also been observed.

The business environment is increasingly favourable to real estate activity over all. The very low mortgage rates and the popularity of the renovation tax credits should continue to stimulate renovation activity across the country. It is important to note, however, that the sharp decrease in housing starts in the last quarters will continue to put downward pressure on sales by building materials specialists and on home renovation spending, since new home buyers generally undertake major improvements in the years following their purchase of a new property.

In this economic context, we will continue in the next quarter to pursue the numerous optimization measures under the PEP program in Phase 1 of the 2008–2011 strategic plan. Given the major gains in efficiency achieved to date under the PEP program and the Company's increased financial flexibility in the wake of our issue of common shares in June, RONA management believes the Company is in an excellent position to commence Phase 2 of the 2008–2011 strategic plan as planned. We are currently finalizing plans for this second phase, which will focus on the re-acceleration of RONA's development activities in order to take full advantage of the four growth vectors that have been the wellsprings of our success for many years. Beginning in late 2009, initiatives will be launched to re-accelerate development, including the launch, on November 12, of a new concept for a highly innovative interior design and paint store.

RISKS AND UNCERTAINTIES

There have been no significant changes to the Company's principal risks and uncertainties during the third quarter of 2009. Please refer to the Annual MD&A for a complete description of the risks the Company faces.

CHANGES IN ACCOUNTING POLICIES

Goodwill and intangible assets

At the beginning of 2009, the Company retroactively adopted Section 3064 of the Canadian Institute of Chartered Accountants' (CICA) Handbook, *Goodwill and intangible assets*, which replaces Section 3062 of the same title. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally generated intangible assets. Pre-opening expenses for stores and distribution centres (previously included in Other Assets), advertising costs, including those related to store openings, and costs incurred for Olympic and Paralympic sponsorship (previously included in Prepaid Expenses) no longer meet the requirements of the new section. The balances in these asset accounts as at December 31, 2007– that is, at the beginning of first quarter 2008 – were restated and included in Retained Earnings and the results of operations in 2008 were also restated to conform to the 2009 presentation.

The impact of the recommendations of the new section on the consolidated financial statements is as follows:

(thousands of dollars)	Third Quarter 2008			Year-to-date September 28, 2008		
	Previously reported	Adjustments	Restated	Previously reported	Adjustments	Restated
Consolidated Earnings						
Earnings before the following items	$ 115,502	$ (2,989)	$ 112,513	$ 306,187	$ (16,750)	$ 289,437
Depreciation and amortization	27,539	(1,758)	25,781	81,899	(5,619)	76,280
Income taxes	24,920	(382)	24,538	61,703	(3,431)	58,272
Non-controlling interest	2,618	15	2,633	4,127	104	4,231
Net earnings and comprehensive income	53,368	(864)	52,504	134,502	(7,804)	126,698
Net earnings per share – basic	0.46	(0.01)	0.45	1.16	(0.06)	1.10
Net earnings per share – diluted	0.46	(0.01)	0.45	1.15	(0.06)	1.09
Consolidated Cash Flows						
Net earnings	53,368	(864)	52,504	134,502	(7,804)	126,698
Depreciation and amortization	27,539	(1,758)	25,781	81,899	(5,619)	76,280
Future income taxes	(138)	(377)	(515)	(37)	(1,013)	(1,050)
Non-controlling interest	2,618	15	2,633	4,127	104	4,231
Changes in working capital items	27,011	4,202	31,213	38,440	17,848	56,288
Other assets	(2,123)	(1,218)	(3,341)	(6,295)	(3,516)	(9,811)
Consolidated Balance Sheets						
Assets				11,197	2,415	13,612
Income taxes receivable				54,880	(36,219)	18,661
Prepaid expenses				12,092	4,803	16,895
Future income taxes – current				28,051	(2,828)	25,223
Other assets						
Liabilities				4,239	(387)	3,852
Future income taxes – current				22,739	(3,199)	19,540
Future income taxes – long-term				30,646	103	30,749
Non-controlling interest				892,967	(20,542)	872,425
Retained Earnings – beginning of year						

	As at December 28, 2008		
	Previously reported	Adjustments	Restated
Consolidated Balance Sheets			
Assets			
Income taxes receivable	$ 6,046	$ 429	$ 6,475
Prepaid expenses	33,104	(21,902)	11,202
Future income taxes – current	13,800	5,474	19,274
Other assets	38,466	(11,256)	27,210
Liabilities			
Future income taxes – current	4,854	(393)	4,461
Future income taxes – long-term	23,998	(2,694)	21,304
Non-controlling interest	29,098	122	29,220
Retained Earnings – beginning of year	892,967	(20,542)	872,425

Credit risk and the fair value of financial assets and financial liabilities

The Emerging Issues Committee issued EIC–173, *Credit risk and the fair value of financial assets and financial liabilities,* which provides guidance on how to measure financial assets and liabilities, taking into account the company's own credit risk and the counterparty credit risk in determining the fair value of financial assets and financial liabilities. The adoption of these recommendations had no material impact on the results, financial position and cash flows of the Company.

NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

Business combinations

In January 2009, the CICA issued Section 1582, *Business combinations*, which replaces Section 1581 of the same title. This section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The section establishes standards for accounting for a business combination.

Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Section 1601, *Consolidated financial statements*, and Section 1602, *Non-controlling interests*, which together replace Section 1600, *Consolidated financial statements*. These sections apply to interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. They establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination.

Financial instruments – disclosures

In June 2009, the CICA issued revisions release no. 54, which includes several amendments to Section 3862, *Financial instruments – disclosures*. This Section has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009.

International financial reporting standards (IFRS)

In February 2008, the Accounting Standards Board of Canada announced that Canadian GAAP for publicly accountable entities will be replaced by IFRS, which will go into effect during the 2011 calendar year. IFRS uses a conceptual framework similar to that of Canadian GAAP, but includes major differences with respect to recognition, measurement, presentation and disclosure. In the period prior to conversion, the International Accounting Standards Board (IASB) will continue to publish new accounting standards, and as a result, the final impact of IFRS on the Company's consolidated financial statements will be evaluated only when all IFRS standards applicable on the conversion date are known.

For the Company, conversion to IFRS will be required for financial statements for periods beginning on or after January 1, 2011. Comparative data will have to be restated so as to comply with IFRS. As a result, the Company has developed a plan to convert its financial statements to IFRS in four phases: Phase 1 – Preliminary Diagnosis, Planning and Definition of the Scope, Phase 2 – Detailed Evaluation, Phase 3 – Definition of the Solution and Phase 4 – Implementation.

The Company is currently completing Phase 2 of its conversion plan, which covers employee training and detailed evaluation of potential impact, and we are now commencing Phase 3, definition of the solution. Accordingly, IFRS standards have been grouped by topic and distributed among 11 task forces comprising employees from every affected sector of the Company. Members of each task force are responsible for evaluating the impact of the differences between the Canadian and IFRS standards and for recommending accounting policies to management. Eight of these task forces have presented their main conclusions to the audit committee at meetings in August and November. The presentation dates for two of the remaining task forces have not yet been determined, as the definitive standards have not yet been released. The last task force, which is studying the presentation of financial statements, expects to present its results in early 2010. Phase 4 is expected to begin in early 2010. RONA anticipates completing the conversion plan before the end of second quarter 2010. Changes in accounting policies are foreseen and are likely to have a significant impact on the Company's consolidated financial statements.

Significant accounting estimates

No major change has occurred since the publication of the Annual Management's Discussion and Analysis for the year ended December 28, 2008.

Internal control over financial reporting

During the third quarter 2009, no change to internal control over financial reporting has occurred that has materially affected, or is reasonably likely to have materially affected, such control.

In early October, however, RONA successfully launched a new financial suite under an integrated Oracle platform. This project, which was completed on time and on budget, is the first in a series of information technology projects that RONA will implement over the coming years to improve the Company's operational efficiency and strengthen controls. The main objectives of the new financial suite are to improve the efficiency of the finance function, strengthen controls and improve management of financial information. The implementation will be considered a major change in internal control over financial information for the next quarter since several new internal financial controls will be introduced to complement or replace existing controls. We have been assured that the design of these new controls is adequate, and their efficiency will undergo assessment, based on our chosen test strategy, by year end.

FORWARD-LOOKING STATEMENTS

This MD&A includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Company, may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Forward-looking statements do not take into account the impact that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business. For example, they do not include the impact of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made.

Investors and others are cautioned that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that would cause the Company's actual results to differ from current expectations, please refer to the Company's public filings available at www.sedar.com and www.rona.ca. In particular, further details and descriptions of these and other factors are disclosed in this MD&A under the "Risks and Uncertainties" section and in the "Risk Factors" section of the Company's current Annual Information Form.

The forward-looking statements in this MD&A reflect the Company's expectations as at November 10, 2009, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

ADDITIONAL INFORMATION

This MD&A was prepared on November 10, 2009. The reader will find additional information concerning RONA, including the Company's Annual Information Form, on the Company's website at www.rona.ca or on the SEDAR website at www.sedar.com.

Claude Guévin (signed)	*Robert Dutton (signed)*
Claude Guévin, CA Executive Vice President Chief Financial Officer	Robert Dutton President Chief Executive Officer

RONA

Consolidated Financial Statements

September 27, 2009 and September 28, 2008

RONA inc.
Consolidated Earnings
For the thirteen and thirty-nine-week periods ended September 27, 2009 and September 28, 2008
(Unaudited, in thousands of dollars, except earnings per share)

	Third Quarter		Year-to-date	
	2009	2008	2009	2008
		(Restated – Note 2)		(Restated – Note 2)
Sales	$ 1,320, 510	$ 1,381,722	$ 3,536,427	$ 3,766,510
Earnings before the following items (Note 5)	105,815	112,513	254,183	289,437
Interest on long-term debt	5,143	6,490	15,674	22,412
Interest on bank loans	645	567	1,731	1,544
Depreciation and amortization	25,893	25,781	77,416	76,280
	31,681	32,838	94,821	100,236
Earnings before income taxes and non-controlling interest	74,134	79,675	159,362	189,201
Income taxes	22,537	24,538	48,446	58,272
Earnings before non-controlling interest	51,597	55,137	110,916	130,929
Non-controlling interest	2,449	2,633	3,489	4,231
Net earnings and comprehensive income	$ 49,148	$ 52,504	$ 107,427	$ 126,698
Net earnings per share (Note 13)				
Basic	$ 0.38	$ 0.45	$ 0.88	$ 1.10
Diluted	$ 0.38	$ 0.45	$ 0.88	$ 1.09

The accompanying notes are an integral part of the interim consolidated financial statements.

RONA inc.
Consolidated Retained Earnings
Consolidated Contributed Surplus
For the thirty-nine-week periods ended September 27, 2009 and September 28, 2008
(Unaudited, in thousands of dollars)

		2009		2008
				(Restated – Note 2)
Consolidated Retained Earnings				
Balance, beginning of period, as previously reported	$	1,053,166	$	892,967
Change in accounting policy – Goodwill and intangible assets (Note 2)		(24,290)		(20,542)
Restated balance, beginning of period		1,028,876		872,425
Net earnings		107,427		126,698
		1,136,303		999,123
Expenses relating to the issue of common shares, net of income tax recovery of $2,042		5,320		–
Balance, end of period	$	1,130,983	$	999,123
Consolidated Contributed Surplus				
Balance, beginning of period	$	12,563	$	11,045
Compensation cost relating to stock option plans		709		1,138
Balance, end of period	$	13,272	$	12,183

The accompanying notes are an integral part of the interim consolidated financial statements.

RONA inc.
Consolidated Cash Flows
For the thirteen and thirty-nine-week periods ended September 27, 2009 and September 28, 2008
(Unaudited, in thousands of dollars)

	Third Quarter		Year-to-date	
	2009	2008	2009	2008
		(Restated – Note 2)		(Restated – Note 2)
Operating activities				
Net earnings	$ 49,148	$ 52,504	$ 107,427	$ 126,698
Non-cash items				
Depreciation and amortization	25,893	25,781	77,416	76,280
Derivative financial instruments	(67)	86	(1,188)	181
Future income taxes	(1,446)	(515)	2,726	(1,050)
Net loss (gain) on disposal of assets	101	(379)	(1,835)	(1,870)
Impairment charge on fixed assets held for sale	2,050	–	2,050	–
Compensation cost relating to stock option plans	236	380	709	1,138
Non-controlling interest	2,449	2,633	3,489	4,231
Other items	328	813	1,399	2,206
	78,692	81,303	192,193	207 814
Changes in working capital items	21,434	31,213	24,461	56 288
Cash flows from operating activities	100,126	112,516	216,654	264 102
Investing activities				
Business acquisitions (Note 7)	–	(173)	(3,214)	(4,059)
Advances to joint ventures and other advances	955	228	(52)	8,157
Other investments	(2,970)	–	(3,496)	(2,440)
Fixed assets	(33,112)	(39,703)	(124,099)	(129,682)
Other assets	(1,952)	(3,341)	(4,762)	(9,811)
Disposal of fixed assets	1,207	1,463	4,695	8,909
Disposal of investments	740	307	1,905	8,710
Cash flows from investing activities	(35,132)	(41,219)	(129,023)	(120,216)
Financing activities				
Bank loans and revolving credit	(6,194)	(54,089)	(42,236)	(106,164)
Other long-term debt	–	–	188	1,977
Repayment of other long-term debt and redemption of preferred shares	(3,628)	(5,740)	(9,585)	(18,042)
Issue of common shares	23,769	1,428	175,795	4,398
Expenses relating to the issue of common shares	(1,244)	–	(7,362)	–
Cash flows from financing activities	12,703	(58,401)	116,800	(117,831)
Net increase in cash and cash equivalents	77,697	12,896	204,431	26,055
Cash and cash equivalents, beginning of period	139,079	16,025	12,345	2,866
Cash and cash equivalents, end of period	$ 216,776	$ 28,921	$ 216,776	$ 28,921
Supplementary information				
Interest paid	$ 11,638	$ 12,975	$ 24,958	$ 31,624
Income taxes paid	$ 9,166	$ 15,459	$ 30,326	$ 67,253

The accompanying notes are an integral part of the interim consolidated financial statements.

RONA inc.
Consolidated Balance Sheets
September 27, 2009, September 28, 2008 and December 28, 2008
(In thousands of dollars)

	September 27, 2009	September 28, 2008	December 28, 2008
		(Restated - Note 2)	(Restated - Note 2)
	(Unaudited)	(Unaudited)	
Assets			
Current assets			
Cash and cash equivalents	$ 216,776	$ 28,921	$ 12,345
Accounts receivable	303,867	329,488	234,027
Income taxes receivable	–	13,612	6,475
Inventory (Note 4)	808,233	846,078	763,239
Prepaid expenses	25,078	18,661	11,202
Derivative financial instruments	297	194	1,089
Future income taxes	17,502	16,895	19,274
	1,371,753	1,253,849	1,047,651
Investments	12,328	9,644	10,186
Fixed assets	907,902	836,683	875,634
Fixed assets held for sale (Note 8)	47,581	35,848	34,870
Goodwill	455,662	456,345	454,889
Trademarks	3,451	3,884	3,797
Other assets	28,867	25,223	27,210
Future income taxes	26,808	22,406	24,681
	$ 2,854,352	$ 2,643,882	$ 2,478,918
Liabilities			
Current liabilities			
Bank loans	$ 6,021	$ 9,601	$ 8,468
Accounts payable and accrued liabilities	556,201	586,830	422,318
Income taxes payable	8,918	–	–
Derivative financial instruments	200	274	2,180
Future income taxes	5,189	3,852	4,461
Instalments on long-term debt	13,197	26,363	15,696
	589,726	626,920	453,123
Long-term debt	433,189	502,553	478,475
Other long-term liabilities	30,563	27,222	28,571
Future income taxes	21,618	19,540	21,304
Non-controlling interest	32,420	30,749	29,220
	1,107,516	1,206,984	1,010,693
Shareholders' equity			
Capital stock (Note 9)	602,581	425,592	426,786
Retained earnings	1,130,983	999,123	1,028,876
Contributed surplus	13,272	12,183	12,563
	1,746,836	1,436,898	1,468,225
	$ 2,854,352	$ 2,643,882	$ 2,478,918

The accompanying notes are an integral part of the interim consolidated financial statements.

1. Basis of presentation

The accompanying unaudited interim consolidated financial statements are in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all the information required for complete financial statements. They are also consistent with the policies outlined in the Company's audited financial statements for the year ended December 28, 2008, except for the change in accounting policy described in Note 2. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 28, 2008. The interim operating results do not necessarily reflect the results for the full fiscal year. Accordingly, the comparative balance sheet as at September 28, 2008 is also included to reflect seasonal fluctuations that characterize the hardware, renovation and home garden industry. When necessary, the financial statements include amounts based on estimated information and management's best judgments.

2. Changes in accounting policies

Goodwill and intangible assets

At the beginning of 2009 the Company retroactively adopted Section 3064 of the Canadian Institute of Chartered Accountants' (CICA) Handbook, *Goodwill and intangible assets,* which replaces Section 3062 of the same title. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally generated intangible assets. Pre-opening expenses for stores and distribution centres (previously included in Other assets), advertising costs, including those related to store openings and costs incurred for Olympic and Paralympic sponsorship (previously included in Prepaid expenses) no longer meet the requirements of the new section. The balances in these asset accounts as at December 31, 2007– that is, at the beginning of first quarter 2008 – were restated and included in Retained Earnings and the results of operations of 2008 were also restated to conform to the 2009 presentation.

(Unaudited, in thousands of dollars, except amounts per share)

2. Changes in accounting policies (continued)

Goodwill and intangible assets (continued)

The impact of the recommendations of the new section on the consolidated financial statements is as follows:

	Third Quarter 2008			Year-to-date September 28, 2008		
	Previously reported	Adjustments	Restated	Previously reported	Adjustments	Restated
Consolidated Earnings						
Earnings before the following items	$ 115,502	$ (2,989)	$ 112,513	$ 306,187	$ (16,750)	$ 289,437
Depreciation and amortization	27,539	(1,758)	25,781	81,899	(5,619)	76,280
Income taxes	24,920	(382)	24,538	61,703	(3,431)	58,272
Non-controlling interest	2,618	15	2,633	4,127	104	4,231
Net earnings and comprehensive income	53,368	(864)	52,504	134,502	(7,804)	126,698
Net earnings per share – basic	0.46	(0.01)	0.45	1.16	(0.06)	1.10
Net earnings per share – diluted	0.46	(0.01)	0.45	1.15	(0.06)	1.09
Consolidated Cash Flows						
Net earnings	53,368	(864)	52,504	134,502	(7,804)	126,698
Depreciation and amortization	27,539	(1,758)	25,781	81,899	(5,619)	76,280
Future income taxes	(138)	(377)	(515)	(37)	(1,013)	(1,050)
Non-controlling interest	2,618	15	2,633	4,127	104	4,231
Changes in working capital items	27,011	4,202	31,213	38,440	17,848	56,288
Other assets	(2,123)	(1,218)	(3,341)	(6,295)	(3,516)	(9,811)
Consolidated Balance Sheets						
Assets				11,197	2,415	13,612
Income taxes receivable				54,880	(36,219)	18,661
Prepaid expenses				12,092	4,803	16,895
Future income taxes – current				28,051	(2,828)	25,223
Other assets						
Liabilities				4,239	(387)	3,852
Future income taxes – current				22,739	(3,199)	19,540
Future income taxes – long-term				30,646	103	30,749
Non-controlling interest				892,967	(20,542)	872,425
Retained Earnings – beginning of year						

	As at December 28, 2008		
	Previously reported	Adjustments	Restated
Consolidated Balance Sheets			
Assets			
Income taxes receivable	$ 6,046	$ 429	$ 6,475
Prepaid expenses	33,104	(21,902)	11,202
Future income taxes – current	13,800	5,474	19,274
Other assets	38,466	(11,256)	27,210
Liabilities			
Future income taxes – current	4,854	(393)	4,461
Future income taxes – long-term	23,998	(2,694)	21,304
Non-controlling interest	29,098	122	29,220
Retained Earnings – beginning of year	892,967	(20,542)	872,425

2. Changes in accounting policies (continued)

Credit risk and the fair value of financial assets and financial liabilities

The Emerging Issues Committee issued EIC–173, *Credit risk and the fair value of financial assets and financial liabilities,* which provides guidance on how to measure financial assets and liabilities, taking into account the company's own credit risk and the counterparty credit risk in determining the fair value of financial assets and financial liabilities. The adoption of these recommendations had no material impact on the results, financial position and cash flows of the Company.

3. Effect of new accounting standards not yet implemented

Business combinations

In January 2009, the CICA issued Section 1582, *Business combinations* which replaces, Section 1581 of the same title. This section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The section establishes standards for accounting for a business combination.

Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Section 1601, *Consolidated financial statements*, and Section 1602, *Non-controlling interests* which together replace Section 1600, *Consolidated financial statements.* These sections apply to interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. They establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination.

Financial instruments – disclosures

In June 2009, the CICA issued revisions release no. 54, which includes, among others, several amendments to Section 3862, *Financial instruments – disclosures*. This Section has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009.

International financial reporting standards (IFRS)

In February 2008, the Accounting Standards Board of Canada announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for financial statements relating to fiscal years beginning on or after January 1, 2011. When converting from Canadian GAAP to IFRS, the Company will prepare both current and comparative information using IFRS. The Company expects this transition to have an impact on its accounting policies, financial reporting and information systems.

The Company is currently evaluating the impact of these new standards on its consolidated financial statements.

(Unaudited, in thousands of dollars, except amounts per share)

4. Inventory

For the thirteen and thirty-nine-week periods ended September 27, 2009, amounts of $967,171 and $2,571,525 of inventory were expensed in the consolidated results ($1,009,028 and $2,741,098 as at September 28, 2008). These amounts include an inventory write-down charge of $11,351 and $30,248 ($14,159 and $38,912 as at September 28, 2008).

5. Store closing costs

Exit and disposal costs and write-down of assets

In April 2008, management approved a detailed plan to close four of its stores included in the corporate and franchised stores segment. Three of these stores were closed in 2008 and one was closed in the second quarter of 2009. During the thirteen and thirty-nine-week periods ended September 27, 2009, the Company recognized the following costs:

	Third Quarter		Year-to-date	
	2009	2008	2009	2008
Lease obligations	$ 6,400	$ 4,231	$ 14,355	$ 4,231
Inventory write-down	–	157	525	2,114
Termination benefits	–	38	–	264
Total recorded in earnings before the following items	6,400	4,426	14,880	6,609
Fixed assets write-down	–	554	–	2,857
Total costs	$ 6,400	$ 4,980	$ 14,880	$ 9,466

The liability for exit and disposal costs and write-down of assets is as follows:

	2009	2008
Balance, beginning of period	$ 3,575	$ –
Costs recognized:		
Lease obligations	14,355	4,231
Termination benefits	–	264
Less: cash payments	(2,770)	(468)
Balance, end of period	$ 15,160	$ 4,027

Other closing costs

During the thirteen and thirty-nine-week periods ended September 27, 2009, in addition to the exit and disposal costs and write-down of assets, the Company recorded operating costs, including interest and depreciation, for the liquidation of the assets of these stores in the amounts of $0 and $1,230 ($1,690 and $4,101 as at September 28, 2008).

(Unaudited, in thousands of dollars, except amounts per share)

6. Vendor rebates

In accordance with EIC-144 *Accounting by a customer (including a reseller) for certain consideration received from a vendor,* the Company must disclose the amount recognized for which the full requirements for vendor rebate entitlement have not yet been met. For the thirty-nine-week period ended September 27, 2009, the Company recognized an amount of $5,320 ($4,703 as at September 28, 2008) which was estimated based on the attainment of specified requirements to receive the rebates.

7. Business acquisitions

During the thirty-nine-week period ended September 27, 2009, the Company acquired one company (two companies in 2008), operating in the corporate and franchised stores segment, by way of an asset purchase. Taking direct acquisition costs into account, this acquisition was for a total consideration of $3,821 ($5,623 in 2008). The Company financed this acquisition from its existing credit facilities. The results of operations of this company are consolidated from its date of acquisition.

The preliminary purchase price allocation of the acquisition was established as follows:

	2009	2008
Accounts receivable	$ 1,145	$ 2,596
Inventory	1,224	3,046
Other current assets	–	66
Fixed assets	105	4,618
Goodwill	1,357	2,816
Current liabilities	(10)	(4,411)
Long-term debt	–	(3,108)
	3,821	5,623
Less: Accrued direct acquisition costs	–	(64)
Balance of purchase price	(607)	(1,500)
Cash consideration paid	$ 3,214	$ 4,059

The Company expects that an amount of $944 ($953 in 2008) of goodwill will be deductible for tax purposes.

8. Fixed assets held for sale

The Company has decided to dispose of land and buildings in the corporate and franchised store segment which are no longer used in operations, and accordingly, established a detailed plan to sell. The Company expects to dispose of these assets within the next twelve-month period. However, given the deterioration of the real estate market in the last months, certain assets have been held for sale for over a year and this, despite the fact that the Company has taken the necessary measures to address these new market conditions. The Company intends to maintain ongoing efforts to dispose of these assets.

The Company disposed of one parcel of land and a building which had been held for sale during the third quarter of 2009 and two parcels of land and two buildings in the first quarter of 2009 and recorded gains on disposition of $446 and $1,521 respectively. In addition, in the third quarter of 2009, the Company recorded an impairment charge of $2,050 for the write-down of fixed assets held for sale to their fair market values less costs to sell.

(Unaudited, in thousands of dollars, except amounts per share)

9. Capital stock

Issued and fully paid:

The following tables present changes in the number of outstanding common shares and their aggregate stated value:

	September 27, 2009	
	Number of shares	Amount
Balance, beginning of period	115,819,699	$ 423,477
Issuance in exchange for common share subscription deposits	328,692	3,744
Issuance under stock option plans	107,000	371
Issuance in exchange for cash [(a)]	13,390,568	172,726
Balance before elimination of reciprocal shareholdings	129,645,959	600,318
Elimination of reciprocal shareholdings	(80,251)	(524)
Balance, end of period	129,565,708	599,794
Deposits on common share subscriptions, net of eliminations of joint ventures [(b)]		2,787
		$ 602,581

	September 28, 2008	
	Number of shares	Amount
Balance, beginning of period	115,412,766	$ 418,246
Issuance in exchange for common share subscription deposits	197,854	3,349
Issuance under stock option plans	89,000	309
Issuance in exchange for cash	117,140	1,538
Balance before elimination of reciprocal shareholdings	115,816,760	423,442
Elimination of reciprocal shareholdings	(72,396)	(435)
Balance, end of period	115,744,364	423,007
Deposits on common share subscriptions, net of eliminations of joint ventures [(b)]		2,585
		$ 425,592

	December 28, 2008	
	Number of shares	Amount
Balance, beginning of year	115,412,766	$ 418,246
Issuance in exchange for common share subscription deposits	197,854	3,349
Issuance under stock option plans	89,000	309
Issuance in exchange for cash	120,079	1,573
Balance before elimination of reciprocal shareholdings	115,819,699	423,477
Elimination of reciprocal shareholdings	(72,396)	(435)
Balance, end of year	115,747,303	423,042
Deposits on common share subscriptions, net of eliminations of joint ventures [(b)]		3,744
		$ 426,786

(a) In June 2009, the Company issued 13,374,500 common shares at a price of $12.90 per share for total gross proceeds of $172,531.

(b) Deposits on common share subscriptions represent amounts received during the period from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis. If the subscription deposits had been exchanged for common shares as at September 27, 2009, the number of outstanding common shares would have increased by 182,802.

9. Capital stock (continued)

Stock option plan of May 1, 2002

The Company adopted a stock option plan for designated senior executives which was approved by the shareholders on May 1, 2002. A total of 2,920,000 options were granted at that date. Options granted under the plan may be exercised since the Company made a public share offering on November 5, 2002. The Company can grant options for a maximum of 3,740,000 common shares. As at September 27, 2009 the 2,920,000 options granted have an exercise price of $3.47 and of this number, 1,645,500 options (1,538,500 options as at September 28, 2008) were exercised.

The fair value of each option granted was estimated at the grant date using the Black-Scholes option-pricing model. Calculations were based upon a market price of $3.47, an expected volatility of 30%, a risk-free interest rate of 4.92%, an expected life of four years and 0% expected dividend. The fair value of options granted was $1.10 per option according to this method.

No compensation cost was expensed with respect to this plan for the thirteen and thirty-nine-week periods ended September 27, 2009 and September 28, 2008.

Stock option plan of October 24, 2002

On October 24, 2002, the Board of Directors approved another stock option plan for designated senior executives of the Company and for certain designated directors. The total number of common shares which may be issued pursuant to the plan will not exceed 10% of the common shares issued and outstanding less the number of shares subject to options granted under the stock option plan of May 1, 2002. These options become vested at 25% per year, if the market price of the common share has traded, for at least 20 consecutive trading days during the twelve-month period preceding the grant anniversary date, at a price equal to or higher than the grant price plus a premium of 8% compounded annually.

On March 8, 2007, the Board of Directors approved certain modifications to the plan. These modifications, approved by the shareholders at the annual shareholders' meeting on May 8, 2007, establish that this plan is no longer applicable to the designated directors of the Company and provide for the replacement of the terms and conditions for granting options under the plan by a more flexible mechanism for setting the terms and conditions for granting options. The Board of Directors will adopt the most appropriate terms and conditions relative to each type of grant. For the options granted on March 8, 2007, February 29, 2008, December 9, 2008 and March 11, 2009, the Board approved the option grants with vesting over a four-year period following the anniversary date of the grants at 25% per year.

(Unaudited, in thousands of dollars, except amounts per share)

9. Capital stock (continued)

As at September 27, 2009, the 2,475,752 options (1,944,052 options as at September 28, 2008) granted have exercise prices ranging from $10.62 to $26.87 ($14.18 to $26.87 as at September 28, 2008) and of this number, 85,100 options (85,100 options as at September 28, 2008) have been exercised and 646,875 options (226,425 options as at September 28, 2008) have been forfeited.

The fair value of stock options granted was estimated at the grant date using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions for the stock options granted during the period:

	September 27, 2009	September 28, 2008
Weighted average fair value per option granted	$4.11	$4.42
Risk-free interest rate	1.98 %	3.25 %
Expected volatility in stock price	35 %	26 %
Expected annual dividend	0 %	0 %
Expected life (years)	6	6

Compensation cost expensed with respect to this plan was $236 and $709 for the thirteen and thirty-nine-week periods ended September 27, 2009 ($380 and $1,138 as at September 28, 2008).

(Unaudited, in thousands of dollars, except amounts per share)

9. Capital stock (continued)

A summary of the situation of the Company's stock option plans and the changes that occurred during the periods then ended is presented below:

	September 27, 2009	
	Options	Weighted average exercise price
Balance, beginning of period	2,981,002	$ 11.46
Granted	516,700	10.62
Exercised	(107,000)	3.47
Forfeited	(372,425)	19.86
Balance, end of period	3,018,277	10.56
Options exercisable, end of period	1,912,894	$ 7.76

	September 28, 2008	
	Options	Weighted average exercise price
Balance, beginning of period	2,922,552	$ 11.31
Granted	243,200	14.18
Exercised	(89,000)	3.47
Forfeited	(62,725)	20.33
Balance, end of period	3,014,027	11.59
Options exercisable, end of period	1,965,569	$ 7.22

	December 28, 2008	
	Options	Weighted average exercise price
Balance, beginning of year	2,922,552	$ 11.31
Granted	258,200	13.99
Exercised	(89,000)	3.47
Forfeited	(110,750)	20.07
Balance, end of year	2,981,002	11.46
Options exercisable, end of year	1,965,569	$ 7.22

(Unaudited, in thousands of dollars, except amounts per share)

9. Capital stock (continued)

The following table summarizes information relating to stock options outstanding as at September 27, 2009:

Exercise price	Expiration date	Options outstanding	Options exercisable
$ 3.47	December 31, 2012	1,274,500	1,274,500
$ 10.62	March 11, 2019	516,700	–
$ 10.86	December 9, 2018	15,000	–
$ 14.18	March 1, 2018	205,500	51,375
$ 14.29	December 16, 2013	410,650	410,650
$ 20.27	December 22, 2014	96,000	96,000
$ 21.21	February 24, 2016	314,500	–
$ 21.78	September 1, 2016	17,576	4,394
$ 23.58	March 8, 2017	150,275	75,975
$ 26.87	February 24, 2016	17,576	–
		3,018,277	1,912,894

10. Guarantees

In the normal course of business, the Company reaches agreements that could meet the definition of “guarantees” in AcG-14.

The Company guarantees mortgages for an amount of $1,447. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is $5,728.

Pursuant to the terms of inventory repurchase agreements, the Company is committed towards financial institutions to buy back the inventory of certain customers at an average of 62% of the cost of the inventory to a maximum of $72,968. In the event of recourse, this inventory would be sold in the normal course of the Company’s operations. These agreements have undetermined periods but may be cancelled by the Company with a 30-day advance notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low.

(Unaudited, in thousands of dollars, except amounts per share)

11. Employee future benefits

As at September 27, 2009, the Company has nine defined contribution pension plans and four defined benefit pension plans. The net pension expense for the benefit plans is as follows:

	Third Quarter		Year-to-date	
	2009	2008	2009	2008
Cost recognized for defined contribution pension plans	$ 2,358	$ 2,077	$ 7,166	$ 6,388
Cost recognized for defined benefit pension plans	434	342	1,239	880
Net employee future benefit costs	$ 2,792	$ 2,419	$ 8,405	$ 7,268

12. Segmented information

The Company has two reportable segments: distribution and corporate and franchised stores. The distribution segment relates to the supply activities to affiliated, franchised and corporate stores. The corporate and franchised stores segment relates to the retail operations of the corporate stores and the Company's share of the retail operations of the franchised stores in which the Company has an interest.

The accounting policies that apply to the reportable segments are the same as those described in accounting policies. The Company evaluates performance according to earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest, i.e. sales less chargeable expenses. The Company accounts for intersegment operations at fair value.

(Unaudited, in thousands of dollars, except amounts per share)

12. Segmented information (continued)

	Third Quarter		Year-to-date	
	2009	2008 (Restated)	2009	2008 (Restated)
Segment sales				
Corporate and franchised stores	$ 1,005,738	$ 1,061,863	$ 2,662,923	$ 2,874,911
Distribution	620,492	635,271	1,790,575	1,843,654
Total	1,626,230	1,697,134	4,453,498	4,718,565
Intersegment sales and royalties				
Corporate and franchised stores	–	–	–	–
Distribution	(305,720)	(315,412)	(917,071)	(952,055)
Total	(305,720)	(315,412)	(917,071)	(952,055)
Sales				
Corporate and franchised stores	1,005,738	1,061,863	2,662,923	2,874,911
Distribution	314,772	319,859	873,504	891,599
Total	1,320,510	1,381,722	3,536,427	3,766,510
Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest				
Corporate and franchised stores	113,407	122,049	278,232	315,988
Distribution	27,598	28,607	80,646	80,221
Total	141,005	150,656	358,878	396,209
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest				
Corporate and franchised stores	83,400	89,686	189,773	226,353
Distribution	22,415	22,827	64,410	63,084
Total	105,815	112,513	254,183	289,437
Acquisition of fixed assets				
Corporate and franchised stores	18,508	29,938	86,358	109,860
Distribution	14,605	13,733	37,847	24,440
Total	33,113	43,671	124,205	134,300
Goodwill				
Corporate and franchised stores	–	(1,500)	1,357	1,463
Distribution	–	–	–	–
Total	$ –	$ (1,500)	1,357	1,463
Total assets				
Corporate and franchised stores			2,170,535	2,187,429
Distribution			683,817	456,453
Total			$ 2,854,352	$ 2,643,882

13. Net earnings per share

The table below shows the calculation of basic and diluted net earnings per share:

	Third Quarter		Year-to-date	
	2009	2008 (Restated – Note 2)	2009	2008 (Restated – Note 2)
Net earnings	$ 49,148	$ 52,504	$ 107,427	$ 126,698
Number of shares (in thousands)				
Weighted average number of shares used to compute basic net earnings per share	129,455.1	115,668.5	121,646.7	115,609.3
Effect of dilutive stock options [(a)]	1,006.8	1,049.0	1,008.1	1,091.7
Weighted average number of shares used to compute diluted net earnings per share	130,461.9	116,717.5	122,654.8	116,701.0
Net earnings per share				
Basic	$ 0.38	$ 0.45	$ 0.88	$ 1.10
Diluted	$ 0.38	$ 0.45	$ 0.88	$ 1.09

(a) As at September 27, 2009, 1,728,777 common share stock options (1,199,977 options as at September 28, 2008) were excluded from the calculation of diluted net earnings per share since these options have an antidilutive effect.