FINANCIAL REPORT 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION ($ in thousands)

2014 Highlights:

2014 marked the beginning of a transformation for True Value Company. A long-term strategic plan was developed, approved by the board of directors and many of the resulting strategic initiatives and investments were commenced. The strategic plan was built around three pillars: Engagement, Growth and Efficiency, with various initiatives supporting each pillar.

True Value saw immediate results on the growth pillar with the largest organic growth in annual gross billings since 1994, also the fourth consecutive annual increase. Gross billings were $2,014,840, up $114,822 or 6.0% for the company's 53 week reporting year in 2014 and up $93,857, or 4.9% on a 52 week comparable basis with 2013. This increase was fueled by two key drivers. First, gross billings from new stores of $59,014 exceeded that from terminated stores by $23,635. This too, was the largest increase since 1994. Second, comparable store sales were up 3.1% at retail and 5.2% at wholesale on a 53 week basis and 4.0% on a 52 week basis.

Retailers implemented 969,000 square feet of the Destination True Value format in 2014, up 12.2% from 864,000 square feet implemented in 2013. True Value issued $16,682 in interest-free or low-interest-bearing loans to retailers to help them remodel, expand, relocate, or open branch or new DTV format stores. Stores that remodel to the DTV format consistently outperform stores that do not and these remodels are a key driver of comparable store sales increases.

December saw the implementation of two of the strategic initiatives. First, we kicked off our unprecedented national advertising plan with the season six premiere of two-time Emmy Award-winning reality TV series "Undercover Boss", watched by more than nine million people. These heightened levels of advertising are made possible by the engagement and support of our many vendor partners. Second, the company completed an amendment to its revolving credit facility to provide the funding for the strategic plan. The amendment increased the size of the facility to $450,000 from $250,000, extended the term to December of 2019 and lowered the interest rate. The current interest rate is 1.66%, the lowest in the company's history.

Significant changes were rolled out from True Value Manufacturing. New colorant technology, equipment, displays, collateral and color palette were implemented at retail in the first half of the year, which was financed and partially subsidized by the company. Second, our lab significantly reformulated our latex paints, improving product performance and our ratings from a leading, third party independent product testing organization.

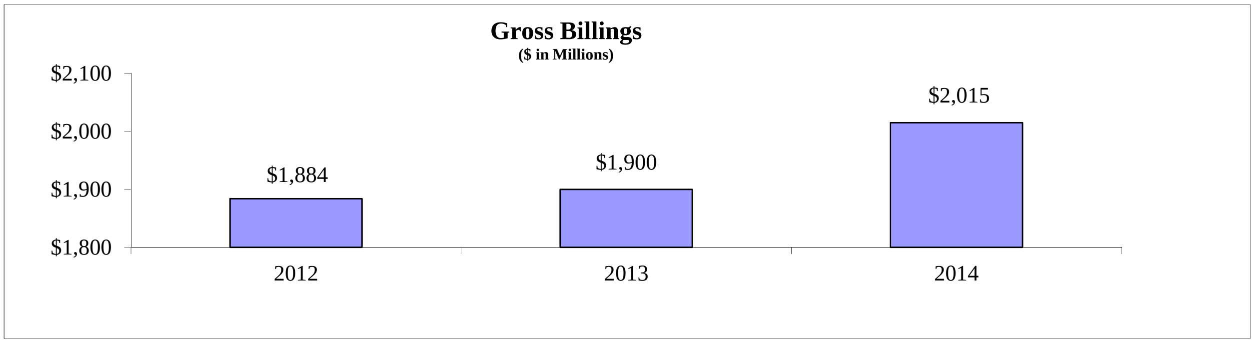
Various initiatives required $13,216 of expense to be recorded, of which $8,953 or 67.7% related to severance and other post-employment related expenses, as well as, recruiting and employment costs to upgrade talent and bring new skills to the company. The board of directors approved an increase in the cash portion of the patronage dividend to 50% in order to maintain a consistent level of patronage dividend cash flow to members, in spite of the strategic plan related investments and expenses.

Financial Overview

Management utilizes a variety of key performance measures to monitor the financial health and performance of True Value's business. These measures are Gross Billings, Revenue, retail comparable store sales ("retail comp store sales"), comparable store product sales to retailers ("comp store product revenue") as well as net retailer growth and Net Margin.

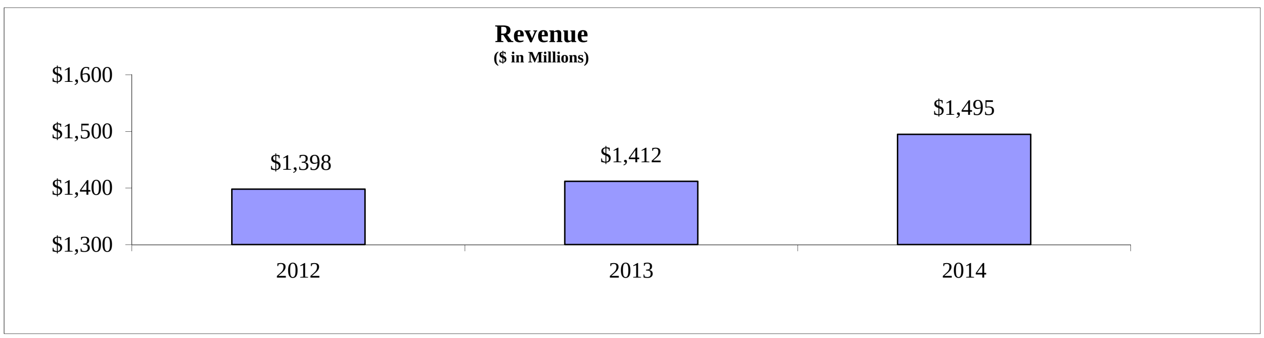
Gross Billings:

Gross Billings include warehouse revenue, vendor direct revenue and other fees before the reduction for vendor direct costs of revenue. True Value believes that the amount of gross billings is a key performance measure for disclosure. Management reporting and associate incentive plans are based on gross billings. As such, True Value includes Gross Billings in a separate column on the Consolidated Statement of Comprehensive Income.

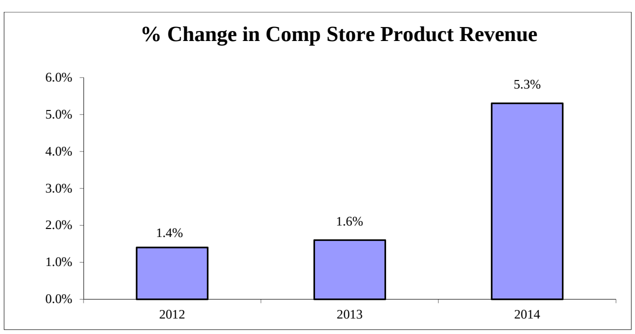


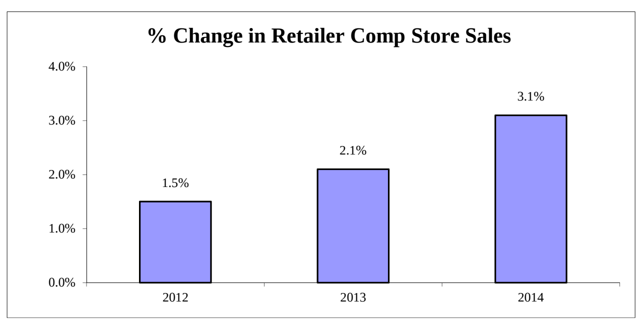
Gross Billings increased for the fourth year in a row, up $114,822, or 6.0%, to $2,014,840 in 2014 compared to $1,900,018 in 2013. The main increase was in warehouse revenue which increased by $78,644, or 6.1%. Wholesale was up in all regions and all categories, led by Farm Ranch Auto & Pet, up 17.0%, followed by Seasonal, Plumbing and Paint. Vendor direct billings also increased by $32,411, or 6.4%, predominately due to a new program with Stihl and increases in Home and Lumber, as well as growth with International retailers.

Revenue:

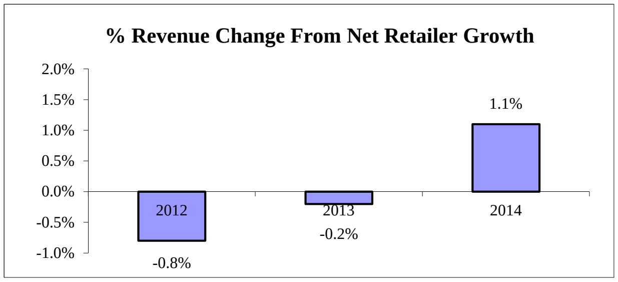


Revenue is the same as Gross Billings except the vendor direct revenue is reduced by the vendor direct costs of revenue. Revenue increased in 2014 by $83,516, or 5.9%, to $1,495,023 compared to $1,411,507 in 2013. The increase was $67,134, or 4.8% on a comparable 52 week basis. The increase was a combination of comp store product sales and an increase in net retailer growth.





Comparable store product revenue increased in 2014 for the fifth consecutive year and was 5.3% in 2014, while retail comparable store sales grew 3.1%, based upon True Value supplied stock keeping units ("SKUs"), as reported by over 1,600 stores. Retail had increases in all but one of 12 regions of the country and all but one of nine merchandise categories, led by Farm Ranch Auto & Pet, up 11.6%.



True Value saw a significant uptick in the number of new stores as a result of new ground up or branch stores and conversions from other cooperatives and distributors. In 2014, 74 core domestic retailers converted to True Value, up from 38 in 2013. Also, in 2014 True Value added 37 new core hardware stores and 15 affiliate stores. In addition, 104 international and specialty stores signed with True Value in 2014. While the net number of participating stores decreased by 22 to 4,472 from 4,494 at the end of 2013, revenue from new stores exceeded lost revenue from terminated stores by $15,120. The majority of the terminated stores ceased operations.

In regard to the level of patronage from True Value retailers in 2014, the bottom quarter of all stores, based on warehouse revenue, accounted for less than 5% of Revenue. This relationship has been fairly consistent over the last several years. If True Value were to experience a significant level of attrition in this quartile of current retailers, the financial impact would be insignificant. Historically, as was the case in 2014, the majority of True Value's terminated stores have been from this retailer quartile.

In 2015, True Value's plan calls for both retail and wholesale comp store sales to increase due to further roll out of the various Growth initiatives including, DTV store remodel activity, new stores, new expanded ad campaign, plus modest growth in the U.S. economy. Excluding the additional 53rd week in 2014, the wholesale comp store revenue increase is expected to slightly exceed 2014 levels.

Net Margin:

True Value's net margin, excluding the 2014 strategic plan investment expenses, was $54,314, down $1,004, or 1.8%, compared to 2013 of $55,318. Including the 2014 strategic plan investment expenses of $13,216, True Value's net margin was $41,098, down $14,220, or $25.7%. The net margin impact of the higher volume and related rebates was offset by higher labor and benefit expenses and higher inbound and outbound logistics expense, as well as the cost of the retailer subsidies on the rollout of the new paint colorant system.

Operations:

True Value's primary source of revenue is the sale of hardware, paint and paint-related products, and general merchandise to retailer stores. These revenues result from shipments originating from True Value's distribution facilities and delivered to retailers, primarily on True Value's transportation network. True Value's revenue also includes the net profit associated with shipments that go direct from True Value's vendors to retailer stores. True Value also realizes revenue for services provided to retailers, primarily in the form of advertising and transportation fees.

Costs of revenue include acquisition cost of merchandise (net of discounts and vendor incentives), warehousing and transportation costs, manufacturing costs for paint, purchasing, and costs related to advertising and other services. Selling, General and Administrative ("SG&A") costs include retail support center and field personnel expenses, as well as marketing and information technology costs.

The future success of True Value is dependent upon continued support from its retailers in the form of purchases of merchandise and services for their retail and/or industrial distribution outlets. Risk factors that could have a significant negative effect on True Value's profitability include significant declines in membership, declines in the levels at which retailers purchase merchandise and services from True Value, increases in market share of the various other entities that compete in the hardware industry or a decline in the general U.S. economy.

($ in thousands)

Results of Operations for 2014 compared to 2013

Revenue

A reconciliation of Revenue between 2014 and 2013 follows:

	Revenue	% of 2013 Revenue
2013 Revenue	$ 1,411,507	100.0%
53rd week	16,382	1.2%
Comp store revenue	50,482	3.6%
Change in participating retailers:		
New retailers	42,696	3.0%
Terminated retailers	(27,576)	(1.9%)
Net change in participating retailers	15,120	1.1%
Vendor - direct revenue	688	0.0%
Advertising, transportation and other revenue	844	0.0%
Total change	83,516	5.9%
2014 Revenue	$ 1,495,023	105.9%
2014 Gross Billings	$ 2,014,840	

Revenue for the year ended January 3, 2015 totaled $1,495,023, an increase of $83,516, or 5.9%, compared to 2013. True Value's 2014 fiscal year included a 53rd week. On a comparable 52 week basis, revenue was up $67,134, or 4.8% compared to 2013. Comp store revenue increased by $50,482, or 3.6%, primarily due to an increase in the recently expanded farm, ranch, automotive & pet department. Other favorable departments include paint, plumbing, lawn and garden, as well as cold weather and snow-related items in the first quarter of 2014. Retail comp stores sales increased 3.1% as reported by approximately 1,600 members who provide point-of-sale data.

In addition, net new retailers increased revenue by $42,696, or 3.0%. The increase in new member revenue is a combination of existing store conversions from other buying groups and "ground-up" stores opened under the new store initiative. Partially offsetting the sales increases was a decrease in revenue of $27,576, or 1.9%, resulting from terminated retailers.

Gross Billings totaled $2,014,840, an increase of $114,822 or 6.0%, as compared to the same period last year. On a 52 week comparable basis, gross billings increased $93,857, or 4.9%. The gross billings increase was primarily due to the reasons discussed above. In addition, direct shipment sales from the vendor to the retailer increased due to a new program with Stihl as well as higher lumber and home department sales. Comp stores sales, on a gross billings basis, increased by 4.7% and 3.7%, respectively, on a 53 and 52 week comparison to the prior year.

Gross Margin	2014	2013	$ Increase
For the Year Ended	$223,065	$216,730	$6,335
Percent to Revenue	14.9%	15.4%	
Percent to Gross Billings	11.1%	11.4%	

Gross margin increased by $6,335, or 2.9%, primarily due to the increased warehouse volume as discussed above in the revenue section, which favorably impacted gross margin by $16,033, as well as a favorable product mix of $2,013. In addition, the higher sales volume favorably impacted rebates & discounts by $4,467. These favorable gross margin components were partially offset by higher inbound and outbound freight expense of $9,135 due to increased weight and number of shipments. Another unfavorable gross margin component was higher inventory provisions of $4,830 mainly related to True Value's long-term strategic plan, a higher inventory level and specific reserves. In addition, incremental expenses associated with the new paint colorant system roll out unfavorably impacted gross margin by $1,812.

($ in thousands)

Logistics and Manufacturing Expenses	2014	2013	$ (Decrease)
For the Year Ended	$58,758	$59,099	$(341)
Percent to Revenue	3.9%	4.2%	
Percent to Gross Billings	2.9%	3.1%	

Logistics and manufacturing expenses decreased by $341, 0.6%, as compared to the prior year. The decrease was primarily due to favorable indirect expenses capitalized into inventory, partially offset by higher labor due to increased volume of receipts and shipments through the distribution network, as well as higher labor rates, utilities, and repairs and maintenance.

Selling, General and Administrative Expenses	2014	2013	$ Increase
For the Year Ended	$116,796	$96,348	$20,448
Percent to Revenue	7.8%	6.8%	
Percent to Gross Billings	5.8%	5.1%	

SG&A expenses increased $20,448, or 21.2%, as compared to the prior year. The main drivers unfavorably impacting SG&A included expenses associated with True Value's long-term strategic plan of $11,531 as well as higher labor expenses of $6,112 as a result of a 53rd week of salaries and related benefits, merit increases and higher achievement of incentive targets. The remaining unfavorable SG&A expenses include higher depreciation, repairs and maintenance, outside services and other miscellaneous items.

Interest Expense	2014	2013	$ Increase
For the Year Ended - Retailers	$6,207	$5,865	$342
Percent to Revenue	0.4%	0.4%	
Percent to Gross Billings	0.3%	0.3%	
For the Year Ended – Third Parties	$4,659	$3,758	$901
Percent to Revenue	0.3%	0.3%	
Percent to Gross Billings	0.2%	0.2%	

Retailer interest expense and third-party interest expense increased by $342, or 5.8%, and $901, or 24.0%, respectively as compared to last year. The increase in retailer interest was primarily due to a higher level of average outstanding retailer notes, a higher average rate and the 53rd week included in True Value's 2014 fiscal year. The average outstanding retailer notes increased predominately due to the issuance of subordinated promissory notes related to the prior year patronage dividend. Third-party interest expense increased predominately due to higher daily borrowings on the revolving credit facility and the 53rd week included in True Value's 2014 fiscal year.

Net Margin	2014	2013	$ (Decrease)
For the Year Ended	$41,098	$55,318	$(14,220)
Percent to Revenue	2.7%	3.9%	
Percent to Gross Billings	2.0%	2.9%	

The 2014 Net margin of $41,098 decreased by $14,220, or 25.7%, from the 2013 Net margin of $55,318 primarily due to expenses associated with True Value's long-term strategic plan.

($ in thousands)

Results of Operations for 2013 compared to 2012

Revenue

A reconciliation of Revenue between 2013 and 2012 follows:

		Revenue	% of 2012 Revenue
2012 Revenue	$	1,397,960	100.0%
Comp store revenue		19,320	1.4%
Change in participating retailers:			
New retailers		35,277	2.5%
Terminated retailers		(38,019)	(2.7%)
Net change in participating retailers		(2,742)	(0.2%)
Vendor - direct revenue		745	0.1%
Advertising, transportation and other revenue		(3,776)	(0.3%)
Total change		13,547	1.0%
2013 Revenue	$	1,411,507	101.0%
2013 Gross Billings	$	1,900,018	

Revenue for the year ended December 28, 2013 totaled $1,411,507, an increase of $13,547, or 1.0%, compared to 2012. The overall increase in Revenue was predominately in the new retailer category of $35,277, or 2.5%, primarily due to the continued roll-out of the new store offering of free opening inventory on core category assortments approved by True Value. Comp store revenue also saw an increase of $19,320, or 1.4%, which was directionally in-line with the 2.1% increase at retail on True Value-related SKUs as reported from more than 1,600 stores. True Value's increase in warehouse revenue mainly resulted from the continued increase in sales at retail with the most improvement having occurred in the recently expanded Farm, Ranch, Pet & Automotive department as well as departments impacted by weather related events. Positive weather trends favorably impacted the Lawn & Garden and Plumbing departments. Partially offsetting the sales increases was a decrease in revenue of $38,019, or 2.7%, resulting from terminated retailers.

Gross Margin	2013	2012	$ (Decrease)
For the Year Ended	$216,730	$218,292	$(1,562)
Percent to Revenue	15.4%	15.6%	
Percent to Gross Billings	11.4%	11.6%	

Gross margin for the year ended December 28, 2013 decreased by $1,562, or 0.7%, from the prior year. The warehouse volume increase, as discussed in the above revenue section, favorably impacted gross margin by $3,871, however, was more than offset by several factors. The primary driver of the unfavorable gross margin was lower advertising margin of $2,022 that resulted from lower Reunion revenue and higher Reunion costs as well as lower national advertising revenue. Also, paint manufacturing variances were higher by $1,595 primarily due to lower production volume and unfavorable raw material purchase price variance. In addition, the amortization expense for DTV incentive credits was higher by $1,740. Furthermore, outbound transportation margin was lower by $789 mainly resulting from increased costs due to increased weight along with a higher number of shipments.

($ in thousands)

Logistics and manufacturing expenses	2013	2012	$ (Decrease)
For the Year Ended	$59,099	$59,565	$(466)
Percent to Revenue	4.2%	4.3%	
Percent to Gross Billings	3.1%	3.2%	

Logistics and manufacturing expenses decreased by $466, or 0.8%, as compared to the prior year. The decrease was primarily due to lower manufacturing costs as result of lower co-op redemption expense.

Selling, general and administrative expenses	2013	2012	$ Increase
For the Year Ended	$96,348	$93,923	$2,425
Percent to Revenue	6.8%	6.7%	
Percent to Gross Billings	5.1%	5.0%	

SG&A expenses increased $2,425, or 2.6%, as compared to the prior year, primarily due to higher labor related expenses.

Litigation Gain	2013	2012	$ (Decrease)
For the Year Ended	$0	$16,500	$(16,500)
Percent to Revenue	0.0%	1.2%	
Percent to Gross Billings	0.0%	0.9%	

On October 26, 2012, True Value received $18,000 ($16,500 net of legal fees) in settlement of an ongoing litigation matter.

Interest Expense	2013	2012	$ Increase / (Decrease)
For the Year Ended - Retailers	$5,865	$5,103	$762
Percent to Revenue	0.4%	0.4%	
Percent to Gross Billings	0.3%	0.3%	
For the Year Ended – Third Parties	$3,758	$3,815	$ (57)
Percent to Revenue	0.3%	0.3%	
Percent to Gross Billings	0.2%	0.2%	

Retailer interest expense increased by $762, or 14.9%, as compared to the prior year, whereas third-party interest expense was comparable to 2012 with a slight decrease of $57, or 1.5%. The increase in retailer interest was primarily due to a higher level of average outstanding retailer notes. The average outstanding retailer notes increased predominately due to the issuance of subordinated promissory notes related to the prior year patronage dividend.

Net Margin	2013	2012	$ (Decrease)
For the Year Ended	$55,318	$74,920	$(19,602)
Percent to Revenue	3.9%	5.4%	
Percent to Gross Billings	2.9%	4.0%	

The 2013 Net margin of $55,318 decreased by $19,602, or 26.2%, from the 2012 Net margin of $74,920. Excluding the 2012 litigation gain, the 2013 Net margin decreased by $3,102 or 5.3%, from the 2012 Net margin of $58,420 for reasons as discussed above.

Liquidity and Capital Resources

True Value used cash for operating activities of $20,417 for 2014 while it generated cash of $44,778 and $17,968 from operating activities for 2013 and 2012, respectively. The change in cash used for operating activities in 2014 from cash generated from operating activities in 2013 was primarily due to the higher accounts receivable and inventory as well as the lower net margin, partially offset by higher accrued expenses. The higher accounts receivable was mainly due to an increase in payment terms to the retailer and the higher inventory was primarily due to a general increase across departments, a cooler summer and a lack of winter storms in late 2014. The increase in cash generated from operating activities in 2013 compared to 2012 was primarily due to the higher accounts payable, partially offset by the lower net margin. The increase in accounts payable in 2013 was mainly due to a lower level of paid inventory on hand due to the higher sales volume in the fourth quarter resulting from the significant winter weather.

True Value's major working capital components individually move in the same direction with the seasonality of the business. The spring and early fall are the most active periods for True Value and require the highest levels of working capital. Although year-end account balances fluctuate from year-to-year, the low point for accounts receivable, inventory and accounts payable is generally during the month of December. Cash needed to meet accounts payable obligations will be provided by cash generated from collections of accounts receivable and from future sales of inventory.

True Value used cash for investing activities in 2014, 2013 and 2012 of $12,168, $11,205 and $11,245, respectively. Investing activities primarily consist of capital expenditures. In 2014, the cash used for investing activities was fairly consistent to the 2013 and 2012 levels.

True Value generated cash from its financing activities in 2014 of $32,705 while it used cash for financing activities in 2013 and 2012 of $32,072 and $7,115, respectively. In 2014, True Value increased borrowings from its revolving credit facility in the amount of $62,200. In 2014, True Value used its revolving credit facility mainly to fund its operating and investing activities as well as to fund the payment of the patronage dividend and notes and long-term debt. In 2013 and 2012, True Value used the net cash generated from operating and investing activities as well as increased borrowings from its revolving credit facility to pay patronage dividends, debt and to redeem Class A and Class B common stock.

True Value's net working capital at January 3, 2015, December 28, 2013 and December 29, 2012, was $180,468, $185,754 and $196,954, respectively. The current ratio at January 3, 2015, December 28, 2013 and December 29, 2012, was 1.37, 1.48 and 1.55, respectively. The decrease in both True Value's available net working capital and current ratio in 2014 compared to 2013 was primarily due to an increase in accounts payable and the revolving credit facility, partially offset by an increase in accounts receivable and inventory. The decrease in both True Value's available net working capital and current ratio in 2013 compared to 2012 was primarily due to an increase in accounts payable, partially offset by increased inventory levels.

True Value's management believes that its cash from operations and existing Bank Facility will provide sufficient liquidity to meet its working capital needs, planned capital expenditures, debt and pension plan funding obligations due to be paid in 2015. The Bank Facility should provide sufficient liquidity for future needs until its term ends in 2019.

Critical Accounting Policies

True Value's significant accounting policies are contained in the accompanying Notes to Consolidated Financial Statements. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include amounts based on informed estimates and judgments of management with due consideration given to materiality. Accordingly, actual results could differ from those estimates. The following section describes those critical accounting policies where materially different amounts could be reported under different conditions or using different assumptions.

- *Accounts and notes receivable, net of allowance for doubtful accounts* – At January 3, 2015, accounts receivable and retailer notes receivable, net of $3,623 in allowance for doubtful accounts, were $244,737 and $38,400, respectively. True Value determined the allowance based upon its evaluation of a number of factors, primarily aging of receivables, retailer credit information, historical experience, current economic conditions and the ability to offset against unpaid receivables, amounts otherwise due to retailers for stock, notes, interest, and declared and unpaid dividends. While True Value believes it has appropriately considered known or expected outcomes, its retailers' ability to pay their obligations, including those to True Value, could be adversely affected by declining sales of hardware at retail resulting from such factors as the current U.S. economic environment, and intense competition from chain stores, discount stores, home centers and warehouse stores.

- *Vendor Funds* – True Value receives funds from vendors in the normal course of business principally as a result of purchase volumes, sales, early payments and/or promotions of vendors' products. Based on the provisions of the vendor agreements in place, management develops accrual rates by estimating the point at which True Value will have completed its performance under the agreement and the amount agreed upon will be earned. Due to the complexity and diversity of the individual vendor agreements, True Value performs analyses and reviews of historical trends throughout the year to ensure the amounts earned are appropriately recorded. As part of these analyses, True Value validates its accrual rates based on actual purchase trends and applies those rates to actual purchase volumes to determine the amount of funds accrued by True Value and receivable from the vendor. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met. Vendor funds are treated as a reduction of inventory cost, unless they represent a reimbursement of specific, incremental and identifiable costs incurred by True Value to sell the vendor's product. A majority of the vendor funds that True Value receives do not meet the specific, incremental and identifiable criteria. Therefore, True Value treats a majority of these funds as a reduction in the cost of inventory as the amounts are accrued and recognizes these funds as a reduction of cost of revenue when the inventory is sold. As of January 3, 2015, vendor funds related to unpaid amounts for the rebate programs were included in the vendor and other accounts receivable amount of $36,888.

- *Inventories, net of valuation reserves* – At January 3, 2015, inventories were $362,155, net of $16,248 in valuation reserves, and reflect the reductions from cost necessary to state inventories at the lower of cost or market. The lower of cost or market valuation considers the estimated realizable value in the current economic environment associated with disposing of surplus and/or damaged/obsolete inventories. True Value estimated realizable value based on an analysis of historical trends related to its distressed inventory. This analysis compares current levels of active, new and discontinued inventory items to the prior 12-month actual demand, ages these items based on such demand and then applies historical loss rates to the aged items. In addition, based upon known facts and circumstances, reserves for specific inventory items were made. Also, a review of all inventory items over certain thresholds was performed to ascertain if specific reserves were required. Additional downward valuation adjustments could be required should any of the following events occur: 1) True Value elects to accelerate the rate at which it is consolidating stock keeping units ("SKUs") across its warehouse network and 2) an unanticipated decline in retail outlets or a significant contraction in True Value's warehouse stock replenishment business for selected product categories. The current U.S. economic environment may have a significant impact on these events. Potential additional downward valuation adjustments would also be required by True Value in the event of unanticipated additional excess quantities of finished goods and raw materials and/or from lower disposition values offered by the parties who normally purchase surplus inventories.

- *Goodwill* – Goodwill represents excess costs of acquired businesses over the fair value of the net assets acquired. True Value separates the net assets based on its reporting units: Wholesale and Paint Manufacturing. At January 3, 2015 and December 28, 2013, Goodwill was $78,429 for the Wholesale reporting unit, with no Goodwill associated with its Paint Manufacturing reporting unit.

  True Value has not adopted the private company alternative accounting method, which among other things, allows for goodwill to be amortized over 10 years. Instead, True Value follows generally accepted accounting principles under which goodwill is not amortized but tested annually for impairment. It is True Value's policy to perform impairment testing annually at each fiscal year-end date, unless significant events necessitate a more frequent test. Goodwill is evaluated for impairment using a two-step approach. Step 1 of the goodwill valuation requires the comparison of the fair market value to the carrying value, including goodwill, for each reporting unit. To determine the fair market value, True Value uses primarily an income approach (discounted cash flows). True Value makes the following assumptions when developing the fair market value analysis: the optimal scenario for market valuation, discount rates, long-term sales growth, forecasted operating margins, market multiples and other indicators of current market conditions. The fair market value calculation requires considerable management judgment including assumptions and estimates regarding future profitability, cash flow, and business and operating plans of its reporting units. If the fair market value exceeds the carrying value of the reporting unit, then no further work is required. If the carrying value exceeds the fair market value, then there is a potential impairment and Step 2 is required. Step 2 requires the calculation of the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets and comparing it to the fair value of the reporting unit. If the implied fair value of the goodwill is less than the carrying value of goodwill, then True Value would recognize an impairment loss in the period the impairment occurred equal to the difference.

In 2013, True Value elected to adopt new guidance which allows True Value to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this guidance, True Value is not required to calculate the fair value of its reporting unit unless it determines, based on the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount. As such, in 2013 True Value used the qualitative approach and concluded there was no impairment. In 2014, True Value developed a long-term strategic plan that was approved by the board of directors. With the commencement of the strategic plan in 2014, True Value determined that it would be necessary to perform the two-step quantitative goodwill impairment test, and concluded there was no impairment.

- *Deferred tax assets* – At January 3, 2015, the accompanying Consolidated Balance Sheet reflects $32,123 of deferred tax assets, principally related to reserves, accruals, deferred gain recognition and nonqualified notices of allocation. These deferred tax assets, net of deferred tax liabilities of $4,135, are offset by a full valuation allowance at January 3, 2015. True Value had approximately $2,977 of tax operating loss carry-forwards available to offset future taxable income. In general, such carry-forwards must be utilized within 20 years of incurring the net operating loss. At January 3, 2015, True Value concluded that, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be fully realized due to True Value's minimal taxable earnings after the distribution of the patronage dividend to the retailers, and that a full valuation allowance is required. Deferred tax assets will only be realized to the extent net future earnings, after the distribution of the patronage dividend to the retailers, are retained and after accumulated net operating losses are exhausted by True Value.

- *Benefit plans* – At January 3, 2015, total accruals of $16,685 related to benefit plans were included in Accrued expenses of $78,304, Pension of $15,579 and Other long-term liabilities of $28,748 in the accompanying Consolidated Balance Sheet. True Value works with an actuarial firm in the valuation of benefit obligations to determine the expected future benefit obligations. True Value selects certain actuarial assumptions consistent with required regulations such as the discount rate (interest rate used to determine present value of obligations payable in the future), expected return on assets and expected mortality. The discount rate was based on an analysis of bond rates with terms that have similar duration to the pension liabilities. The expected return on assets was based on an analysis of expected long-term rates of return on asset classes reflective of True Value's portfolio mix. To the extent that the actual rates, and other demographic assumptions such as turnover and mortality, vary from the assumptions used to determine the present actuarial valuation of these benefits, True Value may have to change its provision for expenses.

($ in thousands)

The assumptions used to determine True Value's pension obligations for all plans were as follows for the years ended:

Measurement Date	2014 1/3/2015	2013 12/28/2013
Weighted average assumptions:		
Discount rate	3.37%	4.02%
Lump sum rate – current year	3.04%	3.80%
Lump sum rate – long term	4.50%	4.50%

The assumptions used to determine True Value's net periodic pension cost for all plans were as follows for the years ended:

Measurement Date	January 3, 2015 12/28/2013	December 28, 2013 12/29/2012	December 29, 2012 12/31/2011
Weighted average assumptions:			
Discount rate	4.02%	3.09%	3.82%
Expected return on assets	6.50%	7.00%	7.00%
Rate of compensation increase	N/A	N/A	N/A

The rate of compensation increase is no longer applicable as all True Value-sponsored pension plans were frozen as of September 30, 2008, meaning that no further benefits will be credited to participants based on additional years of service or compensation increases.

Assumed discount rates and expected return on assets have a significant effect on the amounts reported for the pension plans. A one-percentage-point change in assumed discount rates and expected return on assets would have the following effects:

	One Percent Decrease	One Percent Increase
Sensitivity to Discount Rate		
Projected benefit obligation as of 1/3/2015	$ 5,180	$ (4,553)
2014 Pension expense	55	(59)
2014 Settlement expense	277	(275)
Total 2014 Pension expense	332	(334)
Sensitivity to expected return on assets:		
2014 Expected Return on Assets	$ (578)	$ 578

McGladrey

Independent Auditor's Report

To the Board of Directors and Members of
True Value Company
Chicago, Illinois

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of True Value Company and its subsidiaries, which comprise the consolidated balance sheets as of January 3, 2015 and December 28, 2013, and the related consolidated statements of comprehensive income, changes in retailers' equity and cash flows for the fiscal years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of True Value Company and its subsidiaries as of January 3, 2015 and December 28, 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Member of the RSM International network of independent accounting, tax and consulting firms.

Other Matter

The financial statements of True Value Company and its subsidiaries, as of and for the year ended December 29, 2012, were audited by other auditors whose report dated April 4, 2013 expressed an unmodified opinion on those statements.

McGladrey LLP

Schaumburg, Illinois
March 3, 2015

TRUE VALUE COMPANY
CONSOLIDATED BALANCE SHEETS
($ in thousands, except per share information)

	January 3, 2015	December 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,651	$ 4,531
Accounts and notes receivable, net of allowance for doubtful accounts of $3,623 and $3,269	244,737	206,598
Vendor and other accounts receivables	36,888	26,781
Inventories, net of valuation reserves of $16,248 and $11,901	362,155	323,813
Prepaid expenses	17,233	13,866
Total current assets	665,664	575,589
Long-term assets:		
Property, plant and equipment, net	67,150	68,150
Goodwill	78,429	78,429
Retailer notes receivable, net of allowance for doubtful accounts of $537 and $401	38,400	30,806
Other assets	14,590	10,635
Total assets	$ 864,233	$ 763,609
LIABILITIES AND RETAILERS' EQUITY		
Current liabilities:		
Accounts payable	$ 244,691	$ 224,814
Drafts payable	30,870	29,543
Accrued expenses	78,304	63,810
Revolving credit facility	97,600	35,400
Current maturities of long-term debt, retailer notes	14,189	15,814
Current maturities of long-term third-party debt	1,011	1,012
Patronage dividend payable in cash	18,531	19,442
Total current liabilities	485,196	389,835
Long-term liabilities and deferred credits:		
Long-term retailer debt, less current maturities	115,982	116,606
Long-term third-party debt, less current maturities	14,322	15,332
Deferred gain on sale leaseback	19,447	22,226
Pensions	15,579	8,324
Other long-term liabilities	28,748	28,565
Redeemable nonqualified Class B nonvoting common stock, $100 par value; 141,656 shares issued and fully paid in 2013	-	14,166
Total long-term liabilities and deferred credits	194,078	205,219
Total liabilities and deferred credits	679,274	595,054
Retailers' equity:		
Redeemable Class A voting common stock, $100 par value; 750,000 shares authorized; 235,920 and 238,020 shares issued and fully paid	23,592	23,802
Redeemable qualified Class B nonvoting common stock and paid-in capital, $100 par value; 4,000,000 shares authorized; 1,933,908 and 1,852,861 shares issued and fully paid	194,689	186,585
Redeemable nonqualified Class B nonvoting common stock, $100 par value; 135,198 shares issued and fully paid in 2014	13,520	-
Deferred patronage	(16,821)	(17,569)
Accumulated deficit	(4,331)	(3,585)
Accumulated other comprehensive loss	(25,690)	(20,678)
Total retailers' equity	184,959	168,555
Total liabilities and retailers' equity	$ 864,233	$ 763,609

The accompanying notes are an integral part of the Consolidated Financial Statements.

TRUE VALUE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
($ in thousands)

	For the Years Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Gross billings	$ 2,014,840	$ 1,900,018	$ 1,883,796
Revenue	$ 1,495,023	$ 1,411,507	$ 1,397,960
Cost of revenue	1,271,958	1,194,777	1,179,668
Gross margin	223,065	216,730	218,292
Operating expenses:			
Logistics and manufacturing expenses	58,758	59,099	59,565
Selling, general and administrative expenses	116,796	96,348	93,923
Litigation gain, net	-	-	(16,500)
Other income, net	(4,465)	(3,680)	(2,555)
Operating income	51,976	64,963	83,859
Interest expense to retailers	6,207	5,865	5,103
Third-party interest expense	4,659	3,758	3,815
Net margin before income taxes	41,110	55,340	74,941
Income tax expense	12	22	21
Net Margin	$ 41,098	$ 55,318	$ 74,920
Other comprehensive income / (loss):			
Pension liability adjustment for deferred actuarial (loss) / gain	(4,547)	11,722	(1,467)
Post-retirement liability for deferred actuarial (loss)	(182)	(105)	(282)
Other (loss) / gain	(283)	9	10
Comprehensive Income	$ 36,086	$ 66,944	$ 73,181

The accompanying notes are an integral part of the Consolidated Financial Statements.

TRUE VALUE COMPANY
CONSOLIDATED STATEMENTS OF CASHFLOWS
($ in thousands)

	For the Years Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Operating activities:			
Net margin	$ 41,098	$ 55,318	$ 74,920
Adjustments to reconcile net margin to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	19,124	17,297	17,606
Provision to allowance for doubtful accounts	791	204	682
Provision for inventory reserves	11,342	6,513	6,309
(Gain) / loss on disposal and sale of assets	(6)	80	756
Amortization of deferred gain on sale leaseback	(2,778)	(2,778)	(2,778)
Changes in operating assets and liabilities:			
Accounts and notes receivable	(75,260)	(39,788)	(35,930)
Inventories	(49,684)	(14,318)	(18,765)
Other current assets	(1,491)	(94)	196
Accounts payable	19,877	21,990	(25,551)
Accrued expenses	14,575	2,533	2,700
Pension	2,687	(263)	(2,096)
Other adjustments, net	(692)	(1,916)	(81)
Net cash and cash equivalents (used for) / provided by operating activities	(20,417)	44,778	17,968
Investing activities:			
Additions to property, plant & equipment	(13,522)	(12,576)	(12,005)
Proceeds from sale of properties	7	19	64
Proceeds from collection of notes	1,347	1,352	696
Net cash and cash equivalents used for investing activities	(12,168)	(11,205)	(11,245)
Financing activities:			
Payment of patronage dividend	(17,824)	(20,515)	(19,175)
Payment of notes, long-term debt and lease obligations	(9,470)	(23,113)	(15,326)
Increase in drafts payable	1,327	5,391	3,528
Increase in revolving credit facility, net	62,200	6,800	25,200
Payment of debt issuance costs	(3,125)	-	(488)
Proceeds from sale of Redeemable Class A common stock and subscriptions receivable	1,032	768	726
Purchase of Class A and Class B common stock	(1,435)	(1,403)	(1,580)
Net cash and cash equivalents provided by / (used for) financing activities	32,705	(32,072)	(7,115)
Net increase/(decrease) in cash and cash equivalents	120	1,501	(392)
Cash and cash equivalents at beginning of year	4,531	3,030	3,422
Cash and cash equivalents at end of year	$ 4,651	$ 4,531	$ 3,030

The accompanying notes are an integral part of the Consolidated Financial Statements.

TRUE VALUE COMPANY
CONSOLIDATED STATEMENTS OF RETAILERS' EQUITY
($ in thousands, except per share information)

	Redeemable Common Stock							
	Class A		Class B					
	# of Shares	Amount	# of Shares	Amount	Deferred Patronage	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Retailers' Equity
Balances at and for the year ended December 31, 2011	**250,740**	**$ 25,074**	**1,867,340**	**$ 188,033**	**$ (19,064)**	**$ (16,787)**	**$ (30,565)**	**$ 146,691**
Net margin	-	-	-	-	-	74,920	-	74,920
Reclass stock presented for redemptions to liabilities	(16,440)	(1,476)	(113,067)	(11,307)	-	1,729	-	(11,054)
Amortization of deferred patronage	-	-	-	-	747	(747)	-	-
Patronage dividend	-	-	91,511	9,151	-	(63,000)	-	(53,849)
Class A stock purchases	8,940	726	-	-	-	-	-	726
Other comprehensive income, net	-	-	-	-	-	-	(1,739)	(1,739)
Balances at and for the year ended December 29, 2012	**243,240**	**24,324**	**1,845,784**	**185,877**	**(18,317)**	**(3,885)**	**(32,304)**	**155,695**
Net margin	-	-	-	-	-	55,318	-	55,318
Reclass stock presented for redemptions to liabilities	(11,520)	(1,290)	(78,171)	(7,817)	-	7	-	(9,100)
Amortization of deferred patronage	-	-	-	-	748	(748)	-	-
Patronage dividend	-	-	85,253	8,525	-	(54,277)	-	(45,752)
Class A stock purchases	6,300	768	-	-	-	-	-	768
Other comprehensive income, net	-	-	-	-	-	-	11,626	11,626
Balances at and for the year ended December 28, 2013	**238,020**	**23,802**	**1,852,866**	**186,585**	**(17,569)**	**(3,585)**	**(20,678)**	**168,555**
Net margin	-	-	-	-	-	41,098	-	41,098
Reclass stock presented for redemptions to liabilities	(13,020)	(1,242)	(73,876)	(7,387)	-	-	-	(8,629)
Reclass of Nonvoting Class B stock from Liabilities	-	-	135,198	13,520	-	-	-	13,520
Amortization of deferred patronage	-	-	-	-	748	(748)	-	-
Patronage dividend	-	-	154,918	15,491	-	(41,096)	-	(25,605)
Class A stock purchases	10,920	1,032	-	-	-	-	-	1,032
Other comprehensive income, net	-	-	-	-	-	-	(5,012)	(5,012)
Balances at and for the year ended January 3, 2015	**235,920**	**$ 23,592**	**2,069,106**	**$ 208,209**	**$ (16,821)**	**$ (4,331)**	**$ (25,690)**	**$ 184,959**

The accompanying notes are an integral part of the Consolidated Financial Statements.

TRUE VALUE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
($ in thousands)

1. Description of Business and Accounting Policies

Principal Business Activity

True Value Company ("True Value") is a member-owned wholesaler cooperative of hardware and related merchandise. True Value also manufactures and sells paint and paint applicators. True Value's goods and services are sold predominately within the United States, primarily to retailers of hardware, industrial distributors, garden centers and rental retailers who have entered into retail agreements with True Value. True Value also provides to its retailers value-added services such as marketing, advertising, merchandising, and store location and design services. All retailers are considered related parties; however, no one retailer significantly impacts True Value's financial statements.

Consolidation

The Consolidated Financial Statements include the accounts of True Value and all wholly owned subsidiaries.

Reporting Year

True Value's fiscal year ends the Saturday closest to December 31. Fiscal years 2014, 2013 and 2012 ended on January 3, 2015, December 28, 2013, and December 29, 2012, respectively. Fiscal year 2014 contained 53 weeks: fiscal years 2013 and 2012 contained 52 weeks.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

True Value classifies all highly liquid investments with an original maturity of three months or less as cash equivalents. True Value maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. True Value has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is determined principally on the basis of past collection experience applied to ongoing evaluations of True Value's accounts and notes receivables and the risks of repayment after applying set-off rights for any payment obligations owed by True Value to the retailer. The January 3, 2015 allowance was $4,160 compared to the allowance as of December 28, 2013 of $3,670. True Value considers accounts and notes receivable past due if amounts remain unpaid past their due date and writes off uncollectible receivables after applying set-off rights and exhausting all collection efforts. True Value considers a loan to be impaired when, based on current information and events based on historical losses and current economic conditions, it is probable that True Value will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Vendor Funds

True Value receives funds from vendors in the normal course of business principally as a result of purchase volumes, sales, early payments or promotions of vendors' products. Based on the provisions of the vendor agreements in place, management develops accrual rates by estimating the point at which True Value will have completed its performance under the agreement and the amount agreed upon will be earned. Due to the estimation process and diversity of the individual vendor agreements, True Value performs analyses and reviews of historical trends throughout the year to ensure the amounts earned are appropriately recorded. As part of these analyses, True

Value validates its accrual rates based on actual purchase trends and applies those rates to actual purchase volumes to determine the amount of funds accrued by True Value and receivable from the vendor. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met. Vendor funds are treated as a reduction of inventory cost, unless they represent a reimbursement of specific, incremental and identifiable costs incurred by True Value to sell the vendor's product. A majority of the vendor funds that True Value receives do not meet the specific, incremental and identifiable criteria. Therefore, True Value treats a majority of these funds as a reduction in the cost of inventory as the amounts are accrued and recognizes these funds as a reduction of cost of revenues when the inventory is sold.

Inventories

Merchandise inventory is stated at the lower of cost, determined on the first-in, first-out basis, or market value. Manufactured inventory is stated at the lower of cost, determined on a standard cost method that approximates the first-in, first-out basis, or market value. The lower of cost or market value considers the estimated realizable value in the current economic environment associated with disposing of surplus and/or damaged/obsolete inventories. True Value's ending 2014 inventory valuation reserve was $16,248, an increase of $4,347 from the ending 2013 reserve of $11,901. True Value calculated the estimated realizable value based on an analysis of historical trends related to its distressed inventory. In its analysis, True Value considers historical data on its ability to return inventory to suppliers, to transfer inventory to other distribution centers, to sell inventory to retailers through a price reduction process and to sell remaining inventory to liquidators. The cost of inventory also includes direct and indirect costs (such as logistics, manufacturing, freight-in and support costs) incurred to bring inventory to its existing locations for resale as well as vendor rebates. These direct and indirect costs and vendor rebates are treated as net product costs, classified in inventory and subsequently recorded as cost of revenue as the product is sold (see Note 3, "Inventories").

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization are computed by using the straight-line method over the following estimated useful lives: buildings and improvements – 7 to 40 years; machinery and warehouse equipment – 2 to 12 years; office and computer equipment and software – 3 to 7 years; transportation equipment – 5 to 12 years; and leasehold improvements – the lesser of the life of the lease, without regard to options for renewal, or the useful life of the underlying property.

Goodwill

Goodwill represents excess costs of acquired businesses over the fair value of the net assets acquired. True Value separates the net assets based on its reporting units: Wholesale and Paint Manufacturing. At January 3, 2015 and December 28, 2013, Goodwill was $78,429 for the Wholesale reporting unit, with no Goodwill associated with its Paint Manufacturing reporting unit.

True Value has not adopted the private company alternative accounting method which among other things allows for goodwill to be amortized over 10 years. Instead, True Value follows generally accepted accounting principles ("GAAP") under which goodwill is not amortized but tested annually for impairment. It is True Value's policy to perform impairment testing annually at each fiscal year-end date, unless significant events necessitate a more frequent test. Goodwill is evaluated for impairment using a two-step approach. Step 1 of the goodwill valuation requires the comparison of the fair market value to the carrying value, including goodwill, for each reporting unit. To determine the fair market value, True Value uses primarily an income approach (discounted cash flows). True Value makes the following assumptions when developing the fair market value analysis: the optimal scenario for market valuation, discount rates, long-term sales growth, forecasted operating margins, market multiples and other indicators of current market conditions. The fair market value calculation requires considerable management judgment including assumptions and estimates regarding future profitability, cash flow, and business and operating plans of its reporting units. If the fair market value exceeds the carrying value of the reporting unit, then no further work is required. If the carrying value exceeds the fair market value, then there is a potential impairment and Step 2 is required. Step 2 requires the calculation of the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets and comparing it to the fair value of the reporting unit. If the implied fair value of the goodwill is less than the carrying value of goodwill, then True Value would recognize an impairment loss in the period the impairment occurred equal to the difference.

($ in thousands)

In 2013, True Value elected to adopt new guidance which allows True Value to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this guidance, True Value is not required to calculate the fair value of its reporting unit unless it determines, based on the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount. As such, in 2013 True Value used the qualitative approach and concluded there was no impairment. In 2014, True Value developed a long-term strategic plan that was approved by the board of directors. With the commencement of its strategic plan in 2014, True Value determined that it was necessary to perform the two-step quantitative goodwill impairment test, and concluded there was no impairment as of January 3, 2015.

True Value was only required to do Step 1 testing. As part of the testing, True Value conducted sensitivity analysis on the discount rate and long-term revenue growth rates. The discount rate could increase by more than 2.0% of the rate utilized or the long-term revenue growth rate could decline to zero growth rate, and the Wholesale reporting unit would still have fair market value greater than carrying value. As such, there was no impairment of the Goodwill. There have been no significant events since the timing of the impairment tests that would have triggered additional impairment testing.

Accumulated other comprehensive loss

True Value's Accumulated other comprehensive loss is comprised of, and related to, the following at:

	January 3, 2015		December 28, 2013	
Pension	$	26,738	$	22,191
Post retirement		(1,309)		(1,490)
Other		261		(23)
	$	25,690	$	20,678

Revenue Recognition

True Value's policy on items sold through its distribution network is to recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured. Product revenue is recognized when title and risk of loss have transferred to the customer, which is upon delivery of products from the warehouse. Provisions for discounts, rebates and other cash consideration given to customers, and returns are provided for at the time the related sales are recorded and are reflected as a reduction of sales. Certain promoted items are sold with the right of return; True Value has established a reserve in anticipation of these estimated returns. For items sold vendor direct to the retailer, True Value recognizes the net revenue (the profit from the sale, not the full price of the product) when True Value receives the invoice from the vendor. Gross Billings for vendor direct sales were $541,159, $508,748 and $505,329 for 2014, 2013 and 2012, respectively. (Gross Billings for vendor direct sales represents the billings from the sale of the product prior to reducing it to the net profit.)

Service revenue is comprised of advertising and reunions, and transportation which amounted to $50,025 and $61,709 for 2014, respectively, $49,943 and $58,624 for 2013, respectively, and $51,454 and $58,583 for 2012, respectively. Amounts billed to retailers for advertising are included in Revenue and recognized when the underlying advertisement is run or when the related circulars are dropped. Amounts billed to vendors for Reunions are included in Revenue and are recognized in the months the Reunions are held. Amounts billed to retailers for shipping and handling costs are included in Revenue and are recognized when the services are provided.

Advertising Expenses

Advertising costs are expensed in the period the advertising takes place. Such costs amounted to $34,094, $38,309, and $38,542 in 2014, 2013 and 2012, respectively, and are included in Cost of revenue.

Repairs and Maintenance Expense

Expenditures which extend the useful lives of True Value's property, plant and equipment are capitalized and depreciated on a straight-line basis over the remaining useful lives of the underlying assets. Otherwise, repair and maintenance expenditures are expensed as incurred.

Research and Development Costs

Research and development costs related to True Value's manufacturing operations are expensed as incurred. Such costs, which mainly include labor and related costs, amounted to $1,267, $1,266, and $1,366 in 2014, 2013 and 2012, respectively, and are included in Logistics and manufacturing expenses.

Shipping and Handling Costs

Amounts incurred for shipping and handling are included in Cost of revenue.

Income Taxes

Deferred tax assets and liabilities are determined based on cumulative temporary differences between the amounts shown on the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. At January 3, 2015 and December 28, 2013, True Value concluded that, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be fully realized due to True Value's minimal taxable earnings after the distribution of the patronage dividend to the retailers, and that a full valuation allowance is required. Deferred tax assets will only be realized to the extent net future earnings, after the distribution of the patronage dividend to the retailers, are retained and after accumulated net operating losses are exhausted by True Value.

True Value follows the provisions of the Financial Accounting Standards Board (FASB) guidance related to accounting for uncertainty in income taxes. True Value has not recorded a reserve for any tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. When and if applicable, potential interest and penalty expenses are accrued as incurred and classified in selling, general and administrative expenses in the statement of income. As of January 3, 2015 and December 28, 2013, True Value has no liability for unrecognized tax benefits.

True Value and its subsidiaries file income tax returns in the United States as well as all states, many local U.S. jurisdictions and China. True Value is no longer open to audit for any U.S. federal, state, local or non-U.S. income tax jurisdiction for years 2009 and prior. True Value is still subject to state audits in seven states for its tax year 2010 and remains open to audit for most jurisdictions for years 2011 through current.

Per Share Information

True Value's Redeemable Class A voting common stock is owned by retailers. True Value's Redeemable Class B nonvoting common stock outstanding was issued to retailers in partial payment of the annual patronage dividend. There is no existing market for True Value common stock and there is no expectation that any market will develop. Accordingly, no earnings per share information is presented in the Consolidated Financial Statements.

Fair Value of Financial Instruments

True Value's financial instruments are comprised primarily of accounts and notes receivable, accounts payable, short-term borrowings, long-term debt and subordinated promissory and subordinated promissory installment notes.

The carrying amounts of accounts receivable, net of allowances, accounts payable and short-term borrowings approximate fair value due to the short-term maturities of these financial instruments. The notes receivable, both short and long term, are carried at face value, adjusted for reserve for known collection issues. The notes payable, both short and long term, are carried at face value as there is no external market. True Value records its long-term debt, subordinated promissory and subordinated promissory installment notes at their carrying value.

Concentration of Credit Risk

Credit risk pertains primarily to True Value's trade and note receivables. True Value extends credit to its retailers as part of its day-to-day operations. True Value believes that because no specific receivable or group of receivables comprises a significant percentage of total trade accounts, its risk with respect to trade receivables is limited.

Additionally, True Value's management believes that its allowance for doubtful accounts is adequate with respect to retailer credit risks. Also, the Certificate of Incorporation and By-Laws specifically provide that True Value may set off its obligation to make any payment to a retailer for such retailer's stock, notes, interest and declared and unpaid dividends against any obligation owed by the retailer to True Value. True Value, but not the retailer, may at its sole discretion exercise these set-off rights when any such funds become due to former retailers with outstanding accounts receivable to True Value and current retailers with past due accounts receivable to True Value. Retailers also secure their obligations to True Value through security and guarantee agreements and collateral.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606),* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. True Value has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

2. Accounts and Notes Receivable

True Value has various programs which provide loans to retailers at terms up to 10 years. The loan programs primarily are to open new stores, make store expansions, remodel existing stores into the Destination True Value ("DTV") format or upgrade equipment. The loans are generally repaid through the retailers' non-Class B common stock portion of the annual patronage dividend, as well as promissory notes principal and interest due to the retailer at the time of the loan, cash payments and/or program rebates. Generally, interest income is accrued at the stated rate of the loan. The loans may be interest-free or bear interest at various rates, depending on the loan program, market rates or the retailers' credit quality. For loans issued at below market interest rates, True Value discounts the loan amounts using market rates at the time of the loan. Interest income is imputed and recorded using the effective interest method. At January 3, 2015, True Value had $52,203 in loans outstanding at an average interest rate of 5.34% and $8,264 in unamortized discount remaining. At December 28, 2013, True Value had $41,669 in loans outstanding discounted at an average interest rate of 5.38% and $7,033 in unamortized discount remaining. During 2014 and 2013, $1,650 and $1,286, respectively, of discount was recognized as a reduction of revenue and $2,276 and $1,968, respectively, in imputed interest income was recognized. The loan contracts under which substantially all notes receivable are issued generally require these loans to be repaid by the application of the non-Class B stock portion of the annual patronage distribution. As a result, True Value reduces the note receivable balance in the consolidated balance sheets by the amount of the non-Class B portion of the annual patronage distribution that it expects to apply against outstanding notes receivable. Notes receivable consist of the following components:

($ in thousands)

	January 3, 2015	December 28, 2013
Notes receivable, gross	$ 55,821	$ 44,140
Less estimated patronage applications	3,733	5,512
Net	52,088	38,628
Less current portion	13,151	7,421
Less allowance for doubtful accounts	537	401
Notes receivable, net	$ 38,400	$ 30,806

True Value applies a consistent practice of establishing an allowance for notes that it feels may become uncollectible by monitoring the financial strength of its retailers. The collectability of certain notes is evaluated on an individual basis while the remaining notes are evaluated on a collective basis. Interest continues to accrue on notes that are impaired. The breakdown of notes evaluated individually versus notes evaluated collectively at January 3, 2015 and December 28, 2013 was as follows:

	January 3, 2015	December 28, 2013
Notes receivable		
Ending balance individually evaluated for impairment	$ 4,410	$ 3,208
Ending balance collectively evaluated with no impairment	51,411	40,932
Ending principal balance	$ 55,821	$ 44,140

True Value has evaluated the collectability of the accounts and notes receivable and has established an allowance for doubtful accounts of $4,160 and $3,670 at January 3, 2015 and December 28, 2013, respectively. Management records the allowance for doubtful accounts based on evaluation of a number of factors, primarily aging of receivables, historical experiences, retailer credit information, the current economic environment and the offsetting amounts due to retailers for stock, notes, interest and declared and unpaid patronage distributions. For accounts and notes receivable identified as potentially uncollectible, management further evaluates the credit risk related to those retailers as low, medium or high and sets increasing allowance levels against the higher risk receivables. The credit risk is assessed from low to high depending on a number of factors, primarily the degree of retailer's deterioration in financial strength and credit information, length of aging period, and duration of negative trend experiences. The changes to the accounts and notes receivable allowance for doubtful accounts for 2014 and 2013 were as follows:

	January 3, 2015	December 28, 2013
Allowance for doubtful accounts		
Beginning balance	$ 3,670	$ 3,944
Provision	791	204
Net write-off	(301)	(478)
Ending Balance	4,160	3,670
Reclass to current	(3,623)	(3,269)
Long term allowance for doubtful accounts	$ 537	$ 401

($ in thousands)

The degree of credit risk assessed on accounts and notes receivables and the related allowance for doubtful accounts for 2014 and 2013 were as follows:

	Accounts and Notes Receivable, Gross	Allowance for Doubtful Accounts
January 3, 2015		
Low	$ 279,053	$ 496
Medium	5,246	1,055
High	2,998	2,609
Total	$ 287,297	$ 4,160
December 28, 2013		
Low	$ 233,776	$ 258
Medium	4,078	575
High	3,220	2,837
Total	$ 241,074	$ 3,670

In the event a retailer terminates their membership with True Value, any outstanding notes receivable, and related allowance for doubtful accounts, are transferred to trade receivables and the retailer is billed for any unpaid principal and interest balances. As a result of any outstanding notes receivable being transferred to trade receivables before any write-offs occur, all notes receivable write-offs are included in the overall trade receivable write-offs in the consolidated financial statements.

3. Inventories

Inventories consisted of the following at:

	January 3, 2015	December 28, 2013
Manufacturing inventories:		
Raw materials	$ 4,174	$ 3,158
Work-in-process and finished goods	18,940	21,013
Manufacturing inventory reserves	(1,074)	(1,548)
	22,040	22,623
Merchandise inventories:		
Warehouse inventory	355,289	311,543
Merchandise inventory reserves	(15,174)	(10,353)
	340,115	301,190
	$ 362,155	$ 323,813

The amount of direct and indirect acquisition costs included in ending inventory was $23,403 and $20,455 at January 3, 2015 and December 28, 2013, respectively.

($ in thousands)

4. Property, Plant & Equipment

Property, Plant & Equipment consisted of the following at:

	January 3, 2015	December 28, 2013
Buildings and improvements	$ 95,430	$ 92,235
Machinery and warehouse equipment	71,220	69,886
Office and computer equipment, and software	144,577	135,912
Transportation equipment	18,120	18,124
	329,347	316,157
Less: accumulated depreciation	(264,537)	(250,347)
	64,810	65,810
Land	2,340	2,340
	$ 67,150	$ 68,150

Depreciation expense for 2014, 2013 and 2012, was $14,591, $13,689 and $13,820, respectively.

Software development costs incurred subsequent to establishing technological feasibility of the software products are capitalized in accordance with FASB Accounting Standards Codification 985-20, "Costs of Computer Software to be Sold, Leased, or Marketed." Capitalized costs are amortized on a straight-line basis over the economic lives of the related products. Amortization expense was $1,320, $1,106 and $1,169 for 2014, 2013 and 2012, respectively and was included in depreciation expense. The unamortized balance of capitalized software to be sold, leased or marketed included in Property, Plant & Equipment was $316 and $1,626 at January 3, 2015 and December 28, 2013, respectively.

Consistent with ASC 350, "Goodwill and Other, Internal-Use Software", True Value has capitalized the costs incurred in the development phase of various software used internally. Capitalized costs are amortized on a straight-line basis over the expected useful life of the related software.

5. Accrued Expenses

Accrued expenses consisted of the following at:

	January 3, 2015	December 28, 2013
Payroll and related taxes and benefits	$ 35,409	$ 30,110
Unearned revenue	8,900	9,304
Warehouse & Transportation	5,981	5,298
Pension withdrawal	4,944	-
Advertising	4,703	3,456
Liability insurance	4,526	4,748
Other	13,841	10,894
	$ 78,304	$ 63,810

($ in thousands)

6. Debt Arrangements

Long-term debt consisted of the following at:

	January 3, 2015	December 28, 2013
Real estate mortgage	$ 15,269	$ 16,175
Other	64	169
Total third-party debt	15,333	16,344
Subordinated promissory and subordinated promissory installment notes	130,171	132,420
	145,504	148,764
Less: amounts due within one year	(15,200)	(16,826)
	$ 130,304	$ 131,938

The weighted average of stated interest rates on total debt was 3.83% and 4.69% as of January 3, 2015 and December 28, 2013, respectively.

Bank Facility

In December 2014, True Value amended its existing $250,000 senior secured revolving credit facility (“Bank Facility”) to increase the credit limit, extend the maturity, lower the interest costs, eliminate compliance with quarterly financial covenants and modify certain terms and conditions. The Bank facility was amended to finance an increasing level of investment in True Value as it implements initiatives in the execution of the long-term strategic plan. The credit limit was amended to the lower of $450,000 or the monthly collateral value of a majority of the True Value’s assets. The amended Bank Facility matures in December 2019. True Value’s availability as of January 3, 2015 and December 28, 2013, was $239,318 and $207,531, respectively, after taking into account outstanding letters of credit.

At January 3, 2015 and December 28, 2013, True Value had $97,600 and $35,400 in revolving credit loans, respectively. As of January 3, 2015 and December 28, 2013, True Value’s average year-to-date interest rate based on a blend of London Interbank Offering Rates (“LIBOR”) and the prime interest rate charged for borrowings under the Bank Facility were 2.2% and 2.1% for 2014 and 2013, respectively. The average year-to-date fees charged for use of the Bank Facility were 0.2% and 0.3% for 2014 and 2013, respectively.

The Bank Facility imposes certain limitations on and requires compliance with covenants from True Value that are usual and customary for similar senior secured revolving credit facilities. Unless such terms and conditions are waived by a majority of the lenders, these terms and conditions include, among other things, limitations on additional third-party debt, the granting of certain liens and guarantees, investments, transactions with related parties and acquisitions and periodic financial reporting requirements. True Value’s accounts receivables, inventory and property are valued monthly to determine a credit limit and substantially all of True Value’s remaining assets are pledged as security for the Bank Facility. As of January 3, 2015, True Value is not aware of any violations of the terms and conditions of the Bank Facility.

Mortgage Transaction

True Value has a mortgage on its Manchester, New Hampshire, distribution center (the “Mortgage”) with a balance at January 3, 2015 of $15,269 and at December 28, 2013 of $16,175. The Mortgage is a 20-year fully amortizing loan at a fixed rate of 6.74% with a maturity date of January 1, 2026.

Subordinated Promissory and Subordinated Promissory Installment Notes

Subordinated promissory notes are issued from time to time for partial payment of the annual patronage dividend. Subordinated promissory notes are subordinated to indebtedness to banking institutions, trade creditors and other indebtedness of True Value as specified by its board of directors. True Value has typically offered the retailers who own the subordinated promissory notes with a scheduled maturity in the current year, the option to extend the maturity of their notes at a new rate and term. In 2014, notes maturing in June and December were extended for an additional six months at rates of 2.5% and approximately 91% and 92%, respectively, of the maturing note values were renewed. In 2013, True Value offered its retailers the option to extend the term of their notes maturing in June and December for an additional six months at a rate of 2.75% and 2.5%, respectively, and approximately 89% and 87% respectively, of the maturing note values were renewed. True Value's management decided in 2013 and 2012 to prepay certain subordinated promissory notes maturing in December 2015 and December 2012 in the amount of $15,630 and $7,488, respectively. These prepayments gave True Value's retailers enhanced liquidity on their investments, supported their cash flows and assisted them in investing in their businesses. True Value has not determined if it will offer retailers with subordinated promissory notes maturing after December 2014 a renewal option or redemption at maturity. In September 2014 and December 2013, True Value set-off $1,611 and $6,176, respectively, of subordinated promissory notes against note receivables for retailers that had loans outstanding related to its DTV loan programs. The offset reduced retailers' obligation to True Value and accelerates access to annual cash patronage dividends that would otherwise go to reduce note balances.

($ in thousands)

Subordinated promissory installment notes are issued in payment of the redemption of qualified Class B common stock upon termination of membership in the cooperative (see Note 8, "Retailers' Equity – Capital Stock Redemption").

Subordinated promissory and subordinated promissory installment notes consisted of the following as of:

	January 3, 2015	December 28, 2013
Subordinated promissory notes at interest rates from 2.50% to 5.50%, maturing from 2014 to 2023	$ 111,379	$ 95,605
Accrued dividend notes liability	3,341	20,798
Subordinated promissory installment notes at interest rates from 1.76% to 3.65%, maturing from 2014 to 2018	13,933	14,809
Accrued stock redemption liability	1,518	1,208
	130,171	132,420
Less: amounts due within one year	(14,189)	(15,814)
	$ 115,982	$ 116,606

Accrued dividend notes liability is subordinated promissory notes that are issued as part of the settlement of the patronage dividend for that fiscal year. For fiscal 2014, the subordinated promissory notes that will be issued with the distribution of the patronage dividend in 2015, will bear an interest rate of 5.5% and mature in 2024. For fiscal 2013, the subordinated promissory notes that were issued with the distribution of the patronage dividend in 2014, bear an interest rate of 5.5% and mature in 2023.

The scheduled amount due within one year for both years was classified in Current maturities of long-term debt and retailer notes.

($ in thousands)

Principal payment schedule for long-term debt:

	2015	2016	2017	2018	2019	Thereafter
Real estate mortgage	$ 970	$ 1,037	$ 1,109	$ 1,186	$ 1,269	$ 9,698
Subordinated promissory and subordinated promissory installment notes	14,189	4,710	20,691	1,498	20,639	68,444
Other	41	20	3	-	-	-
Net minimum payments	$ 15,200	$ 5,767	$ 21,803	$ 2,684	$ 21,908	$ 78,142

7. Lease Commitments

True Value is a lessee of distribution centers, office space, and computer, manufacturing and transportation equipment under operating. The following is a schedule of future minimum lease payments under long-term non-cancelable operating leases (including sale leasebacks) as of January 3, 2015.

	Operating
2015	$ 28,535
2016	26,728
2017	25,564
2018	25,618
2019	24,765
Thereafter	58,016
Net minimum payments	$ 189,226

Minimum annual operating lease payments as shown above include estimated payments for operating costs and real estate taxes due to the lessor, where applicable.

Rent expense under operating leases (reduced by sublease rentals) was $31,567, $31,116 and $30,653 for the years ended January 3, 2015, December 28, 2013 and December 29, 2012, respectively. Long-term deferred rent of $18,747 and $19,957 at January 3, 2015 and December 28, 2013, respectively, was included in Other long-term liabilities.

Sale Leaseback Transaction

In 2002, True Value sold seven of its distribution centers to unrelated third parties and concurrently agreed to lease the distribution centers for a period of 20 years. The transaction was recorded as a real property sale and as ongoing operating leases in True Value's financial statements. The resulting deferred gain was recorded in the Consolidated Balance Sheet in accrued expenses and deferred gain on sale leaseback and is being amortized to income on a straight-line basis over the initial 20-year lease term. As of January 3, 2015, the balance of the deferred gain was $22,225. True Value has the right to extend each lease independently of the other properties for two additional periods of approximately 10 years each. True Value has the right to assign the lease without the landlord's prior written consent, but subject to certain conditions described in the leases. Provided that True Value assigns the rent to the landlord, True Value may sublet all or any part of any property without the landlord's consent.

8. Retailers' Equity

Capitalization

True Value's capitalization from its retailers is classified in Retailers' equity and Liabilities. Retailers' equity is comprised of Redeemable Class A voting common stock, Redeemable qualified and nonqualified Class B nonvoting common stock, Retained Earnings / (Accumulated deficit), Deferred patronage and Accumulated other comprehensive loss. Retailers are required to purchase upon becoming a retailer, 60 shares of True Value's Class A common stock per store, up to a maximum of five stores (300 shares). The Class A common stock has voting rights and is redeemable by True Value upon termination of the membership (the “Redeemable Class A voting common stock”).

True Value issues Class B common stock as part of its patronage dividend. The Class B common stock is redeemable and has no voting rights (the “Redeemable Class B nonvoting common stock”). The By-Laws provide True Value the right to allow a retailer to meet the stock ownership requirements for True Value’s Redeemable Class B nonvoting common stock by the issuance of Redeemable Class B nonvoting common stock in payment of the year-end patronage dividend. The shares of Redeemable Class B nonvoting common stock and other written notices distributed by True Value to its retailers, which disclose to the recipient the stated amount allocated to the retailer by True Value and the portion thereof that is a patronage dividend, are “written notices of allocation” as that phrase is used in the Internal Revenue Code (the “Code”). For such written notices to be "qualified written notices of allocation" within the meaning of the Code, it is necessary that True Value pay 20% or more of the annual patronage dividend in cash and that the retailers consent to having the allocations (at their stated dollar amounts) treated as being constructively received by them and includable in their gross income. True Value has customarily issued Redeemable Class B nonvoting common stock that are “qualified written notices of allocation” (the “Redeemable qualified Class B nonvoting common stock”) with its patronage dividend and the current amount issued and outstanding are classified in the Consolidated Balance Sheet as Redeemable qualified Class B nonvoting common stock. Any written notices that do not meet these requirements are “nonqualified written notices of allocation” within the meaning of the Code.

True Value has issued Redeemable Class B nonvoting common stock that are “nonqualified written notices of allocation” (the “Redeemable nonqualified Class B nonvoting common stock”) as part of the 1997 and 1998 patronage dividends. Amounts issued and outstanding are classified as a long-term liability in 2013 and in retailers’ equity in 2014 in the Consolidated Balance Sheet as Redeemable nonqualified Class B nonvoting common stock. These shares, which are taxable to the retailer upon redemption, are classified in long-term liabilities in 2013 because they had a future redemption schedule that calls for at least 40% of the shares initially issued to be redeemed by December 31, 2019; and all of the shares by December 31, 2029. As of December 28, 2013, through stock redemptions with former retailers, True Value has satisfied the December 31, 2019 requirements having redeemed 58.8% of the Redeemable nonqualified Class B nonvoting common stock initially offered. The original redemption schedule can be modified or eliminated at the discretion of True Value’s board of directors. In December 2014, True Value’s board of directors passed a resolution that eliminated the redemption schedule, and the amounts issued and outstanding on a go-forward basis are now classified in retailers’ equity in the Consolidated Balance Sheet as Redeemable nonqualified Class B nonvoting common stock.

True Value follows the practice of accounting for deferred patronage charges and credits as a separate component of equity. Deferred patronage consists of net charges and expenses, primarily related to costs associated with the July 1997 merger of Cotter & Company and ServiStar Coast to Coast Corporation to form True Value (the “Merger”), which are included in the computation of Net margin in different periods for financial statement purposes than for patronage purposes.

Capital Stock Redemption

Either True Value or the retailer, upon 60 days’ written notice, may terminate membership without cause. In the event membership is terminated, True Value undertakes to purchase, and the retailer is required to sell to True Value, all of the retailer’s Redeemable Class A voting common stock and Redeemable Class B nonvoting common stock at par value. In accordance with True Value’s By-Laws, payment for the Redeemable Class A voting common stock and Redeemable nonqualified Class B nonvoting common stock has historically been in cash at the time of redemption. In accordance with True Value’s By-Laws, True Value redeems former retailers’ Redeemable qualified Class B nonvoting common stock in the form of a subordinated promissory installment note. The subordinated promissory installment notes are payable in five equal annual installments and pay interest annually at a fixed rate. The interest rate on subordinated promissory installment notes created during the year is determined annually on the first business day of the year based on the five-year U.S. Treasury bill rate plus 1.0%. For notes issued in 2013 and 2014 the rate was 1.76% and 2.72%, respectively, and for 2015 the rate will be 2.61%. In accordance with True Value’s By-Laws, True Value first reduces its aggregate stock redemption obligation payable in both cash or subordinated promissory installment note by its right to legally offset any amounts the former retailers may owe True Value, including accounts and notes receivable and/or accumulated deficit.

9. Patronage Dividend

True Value operates on a cooperative basis with respect to business transacted with or for retailers. When there are annual profits, retailers in good standing are entitled to receive patronage dividend distributions from True Value on the basis of gross margins of merchandise purchased by each retailer. In accordance with True Value's By-Laws and Retail Member Agreement, the annual patronage dividend, as authorized by the board of directors, is paid to retailers out of patronage source income, less certain deductions, calculated as provided in the following sentence. The total patronage dividend paid to retailers is based on pre-tax net margins calculated in accordance with accounting principles generally accepted in the United States of America after reducing or increasing net margins for nonmember income/(losses), reasonable reserves, earnings retained by the cooperative and deferred patronage amortization. The total dividend is then allocated to each purchase category, with the purchase categories being warehouse, direct shipment and paint. Once the patronage dividend is allocated to the purchase categories, it is distributed to retailers based on the relative gross margin participation of the retailer for each type of purchase category.

Commencing with the 2004 patronage dividend that was paid in 2005, the board of directors authorized retaining 5% of net patronage source income, as a reasonable annual reserve, to reduce the accumulated deficit account. For the 2013 patronage dividend that was paid in 2014, the board of directors left the base 5% of the net patronage source income, as a reasonable reserve. For the 2014 patronage dividend that was paid in 2015, the board of directors authorized an additional 1.0% over the base 5% of the net patronage source income, as a reasonable reserve, to reduce the accumulated deficit account.

True Value's By-Laws and the Internal Revenue Service (the "IRS") require that the payment of at least 20% of patronage dividends be in cash. However, True Value's policy is to pay 30% of the patronage dividend in cash, and in recent years, True Value had chosen to pay an elevated percentage of approximately 40% of the patronage dividend in cash. As a part of True Value's long-term strategic plan the board of directors has authorized a 50% cash payment of the 2014 patronage dividend before any application of set-off rights. The authorization of 50%, prior to any application of set-off rights, makes the cash portion the patronage dividend and the cash flow to True Value's retailers fairly consistent with prior years' cash amounts, in spite of the strategic plan related investments and expenses. The cash portion related to 2014 patronage dividend before the application of set-off rights will be approximately $22,000 compared to 2013 of $22,500.

Total patronage dividends related to the year ended January 3, 2015, will be $41,096. After applying set-off rights to retailers with outstanding loans, True Value will pay $17,065 of the dividend in cash. In addition, approximately $1,466 will be paid in cash in lieu of subordinated promissory notes being issued for de minimis amounts. True Value will pay the remainder through the issuance of True Value's Redeemable qualified Class B nonvoting common stock and subordinated promissory notes. Patronage dividends of $54,277 related to the year ended December 28, 2013, were paid in March 2014 and patronage dividends of approximately $57,200 along with a special incremental dividend of approximately $5,800 for a total 2012 patronage dividend of $63,000 related to the year ended December 29, 2012, were paid in March 2013; approximately 40% of which was paid in cash prior to any application of set-off rights for both 2013 and 2012. True Value paid the remainder through the issuance of True Value's Redeemable qualified Class B nonvoting common stock and subordinated promissory notes.

10. Commitments and Contingencies

True Value is subject to various claims and lawsuits in the ordinary course of business. True Value believes that the results of pending legal proceedings and claims, including any known claims settled during the quarter, will not have a material adverse effect on the financial condition, results of operations or cash flows of True Value.

($ in thousands)

Other Guarantees

In the normal course of business, True Value enters into standby letters of credit that could become contractual obligations. These letters of credit are generally issued to insurance companies with expiration terms of less than one year. As of January 3, 2015, True Value had outstanding letters of credit in the amount of $7,007.

11. Litigation Gain

True Value received a one-time litigation settlement gain of $16,500, net of contingent legal fees, in the fourth quarter of 2012.

12. Income Taxes

Income tax expense consisted of the following for fiscal years ended:

	January 3, 2015	December 28, 2013	December 29, 2012
Current:			
Federal	$ -	$ -	$ -
State	12	22	21
Total current	12	22	21
Deferred:			
Federal	-	-	-
State	-	-	-
Total deferred	-	-	-
	$ 12	$ 22	$ 21

True Value operates as a nonexempt cooperative and is allowed a deduction in determining its taxable income for amounts paid as qualified patronage dividends based on margins from business done with or on behalf of retailers and for the redemption of nonqualified notices of allocation. The reconciliation of income tax expense to income tax computed at the U.S. federal statutory tax rate of 35% was as follows for fiscal years ended:

	January 3, 2015	December 28, 2013	December 29, 2012
Tax at statutory rate	$ 14,451	$ 19,369	$ 26,376
Effects of:			
Patronage dividend	(14,646)	(18,997)	(22,312)
State income taxes, net of federal benefit	8	14	14
Decrease in valuation allowance	(33)	(578)	(4,271)
Other, net	232	214	214
	$ 12	$ 22	$ 21

Deferred income taxes reflect the net tax effects to True Value of its net operating loss carry-forwards, which expire in years through 2034, alternative minimum tax credit carry-forwards, which do not expire, nonqualified notices of allocations, which are deductible when redeemed and do not expire, and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The deferred tax effect of the net operating loss carryforward was decreased in 2014 by $1,974.

Total deferred tax assets, net of deferred tax liabilities, have a full valuation allowance because True Value has concluded that, based on the weight of available evidence; it is more likely than not that the deferred tax assets will not be fully realized due to True Value's minimal taxable earnings after the distribution of the patronage dividend to the retailers. Deferred tax assets will only be realized to the extent net future earnings, after the distribution of the patronage dividend to the retailers, are retained and after accumulated net operating losses are exhausted by True Value.

($ in thousands)

The significant components of True Value's deferred tax assets and liabilities were as follows for fiscal years ended:

	January 3, 2015	December 28, 2013
Deferred tax assets:		
Net operating loss carryforwards	$ 883	$ 2,857
AMT credit carryforward	541	575
Nonqualified notices of allocation	5,408	5,716
Vacation pay	2,225	2,310
Deferred gain	8,890	10,002
Severance and restructuring costs	2,118	1,537
Book depreciation in excess of tax depreciation	1,480	2,734
Reserves and accruals	3,649	-
Rent expense	2,103	2,362
Inventory capitalization	747	611
Bad debt expense	1,664	1,468
Other	2,415	2,981
Total deferred tax assets	32,123	33,153
Valuation allowance for deferred tax assets	(27,988)	(27,892)
Net deferred tax assets	4,135	5,261
Deferred tax liabilities:		
Contributions to fund retirement plans	2,211	5,261
Other	1,924	-
Net deferred tax liabilities	4,135	5,261
Net deferred tax assets	$ -	$ -

13. Supplemental Cash Flow Information

The annual patronage dividend is satisfied through cash payments and issuance of subordinated promissory notes and Redeemable Class B nonvoting common stock. Noncash operating and financing activities relating to the issuance of patronage dividends were as follows for the years ended:

	January 3, 2015	December 28, 2013	December 29, 2012
Distribution of annual patronage dividend:			
Patronage dividend payable in cash	$ 18,531	$ 19,442	$ 25,752
Issuance of subordinated promissory notes	3,341	20,798	28,097
Issuance of Redeemable Class B nonvoting common stock	15,491	8,525	9,151
Redemption of retail growth notes	3,733	5,512	-
Total	$ 41,096	$ 54,277	$ 63,000

True Value may set off its obligation to make payments to retailers for redeemable stock, notes, interest or declared and unpaid dividends against any obligation owed by the retailer to True Value. True Value classifies stock redemption requests that had not fully completed the redemption process in Liabilities. True Value exercised its set-off rights on stock redemptions in 2014 and 2013 of $9,275 and $9,663, respectively, against obligation owed by the retailer to True Value of $1,462 and $1,096. The remaining amount due to retailers was partially satisfied with subordinated promissory installment notes of $6,113 and $8,189 in 2014 and 2013, respectively.

True Value exercised its set-off rights with retailer accounts receivable and retail growth program notes when True Value retailer notes, interest and patronage dividend payments came due. True Value in 2014, 2013 and 2012, set off $8,862, $11,060 and $7,682, respectively, of notes, interest and cash payments due to retailers against amounts due from retailers for accounts and notes receivable.

True Value has typically offered the retailers who own the subordinated promissory notes with a scheduled maturity in the current year the option to extend the maturity of their notes at a new rate and term. In 2014, 2013 and 2012, True Value extended subordinated promissory notes, at the option of the retailer, in the amounts of $8,319, $10,026 and $12,873, respectively. In addition, in September 2014 and December 2013, True Value set-off $1,611 and $6,176, respectively, of subordinated promissory notes against note receivables for retailers that had loans outstanding related to its DTV loan programs. The offset reduced retailers' obligation to True Value and accelerates access to annual cash patronage dividends that would otherwise go to reduce note balances.

True Value had noncash financing activities related to True Value's programs to provide interest free or low interest bearing loans to retailers to open new stores, make store expansions or remodel stores. The loans are for periods of five or ten years and are generally repaid through the retailers' non-Class B common stock portion of the annual patronage dividend. The amount of the loans issued during 2014, 2013 and 2012 were $16,682, $15,585 and $16,896, respectively.

Cash paid for interest during 2014, 2013 and 2012 totaled $9,696, $7,711 and $7,858, respectively. Cash paid for state income taxes during 2014, 2013 and 2012 totaled $31, $21 and $23, respectively.

($ in thousands)

14. Benefit Plans

True Value had sponsored two noncontributory defined benefit retirement plans that have been frozen since 2008.

	January 3, 2015	December 28, 2013
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 68,710	$ 81,910
Service cost	-	-
Interest cost	2,568	2,352
Benefit payments	(421)	(374)
Actuarial loss / (gain)	8,230	(7,538)
Settlements	(7,238)	(7,640)
Projected benefit obligation at end of year	71,849	68,710
Change in plan assets:		
Fair value of plan assets at beginning of year	60,046	61,785
Actual return on assets	2,968	2,694
Employer contributions	595	3,580
Benefit payments	(190)	(492)
Annuity contract premium adjustment	-	-
Settlements	(7,469)	(7,521)
Fair value of plan assets at end of year	55,950	60,046
Reconciliation of funded status:		
Unfunded status at end of fiscal year	(15,899)	(8,664)
Actuarial loss:		
Prior year balance	22,191	33,913
Current year amortization	(1,766)	(3,089)
Current year settlement impact	(2,704)	(2,465)
Loss / (gain) arising during current period	9,017	(6,168)
Actuarial loss	26,738	22,191
Net amount recognized	$ 10,839	$ 13,527

The Accumulated Benefit Obligation ("ABO") for True Value administered pension plans was $71,849 and $68,710 at January 3, 2015 and December 28, 2013, respectively.

As of December 28, 2013, the pension plans had unrecognized actuarial losses of $22,191. The major sources of actuarial losses under the plans are related to increase in liabilities due to the steady decrease in discount rates and lump sum conversion rates over the past few years. Actuarial losses are amortized using the minimum amortization methodology as described in ASC 715-30, "Defined Benefit Plans - Pensions". At January 3, 2015, unrecognized actuarial losses increased $4,547 to $26,738. Major sources of this change that occurred during 2014 resulted from decreases in the discount rate and lump sum conversion rate during 2014, which resulted in a loss of $3,024. Changes in the mortality table assumption resulted in a loss of $3,437. A net decrease resulting from actuarial losses recognized under ASC 715-30 settlement accounting of $2,704 and amortization of actuarial losses recognized of $1,766, but actuarial/demographic losses of $1,769 further increased the total unrecognized actuarial losses. Additionally, there was a loss of $787 due to less than favorable returns on plan assets compared to expectations. True Value expects settlement accounting to be triggered each year due to the nature of the plan design as most participants receive a lump sum upon termination.

One of True Value's pension plans is the supplemental retirement plan ("SRP"), which is an unfunded unqualified defined benefit plan. The SRP had a Projected Benefit Obligation ("PBO") of $3,437 and $2,952 as of

($ in thousands)

January 3, 2015 and December 28, 2013, respectively. Since the SRP is an unfunded plan, there were no plan assets at January 3, 2015 and December 28, 2013.

At January 3, 2015, True Value recorded in the Pensions and Accrued expenses lines of the Consolidated Balance Sheet a net unfunded PBO of $15,899 for all True Value administered pension plans. The unrecognized actuarial loss for both plans of $26,738 was recorded as a reduction of Retailers' equity in Accumulated other comprehensive loss.

The amount of Accumulated other comprehensive income that is expected to be recognized into expense during 2015 resulting from recognition of deferred actuarial losses from amortization and settlements is $4,470.

The components of net periodic pension cost for True Value administered pension plans were as follows for the years ended:

	January 3, 2015	December 28, 2013	December 29, 2012
Components of net periodic cost:			
Service cost	$ -	$ -	$ -
Interest cost	2,568	2,352	2,768
Expected return on assets	(3,754)	(4,064)	(3,932)
Amortization of actuarial loss	1,766	3,089	2,665
Annuity contact premium adjustment	-	-	-
Settlement loss	2,704	2,465	2,254
Net pension cost	$ 3,284	$ 3,842	$ 3,755

The assumptions used to determine True Value's net periodic pension cost for all plans were as follows for the years ended:

	January 3, 2015	**December 28, 2013**	**December 29, 2012**
Measurement Date	12/28/2013	12/29/2012	12/31/2011
Weighted average assumptions:			
Discount rate	4.02%	3.09%	3.82%
Expected return on assets	6.50%	7.00%	7.00%
Rate of compensation increase (1)	N/A	N/A	N/A

(1) The rate of compensation increase is no longer applicable as all True Value-sponsored pension plans are frozen.

Plan Assets

Plan assets are invested in a diversified portfolio consisting primarily of common stocks, bonds and cash equivalents, which reflect varying rates of return. The overall rate of return objective for the plan assets is a reasonable rate consistent with risk levels established by True Value. It has also been True Value's policy to maintain plan assets sufficient to avoid the benefit restrictions under the Internal Revenue Code section 436.

Plan assets are diversified across several asset classes and investment managers, and are generally invested in liquid funds and securities. Investment risk is also controlled by monitoring plan assets against target allocations on a periodic basis and with continual monitoring of investment managers' performance relative to the investment guidelines established with each investment manager. True Value utilizes an investment consultant to facilitate meeting its investment objectives.

($ in thousands)

The target asset allocation of the plan assets and the actual split by asset category is as follows for the years ended:

Asset Category	Target	January 3, 2015	December 28, 2013
Domestic equities - Large cap	8.5%	9.2%	11.3%
Domestic equities - Mid cap	2.5%	2.9%	3.1%
Domestic equities - Small cap	1.0%	1.4%	1.8%
Foreign equities - International, Large cap	8.0%	7.2%	8.7%
Foreign equities - Emerging Markets, Large cap	5.0%	4.6%	5.9%
Real estate investment trusts	8.0%	8.5%	7.3%
Alternative investments - Commodities	8.0%	6.8%	10.3%
Fixed income - Investment grade	59.0%	57.8%	51.0%
Collective Trusts - Cash Equivalents	0.0%	1.6%	0.6%
Total	100.0%	100.0%	100.0%

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at January 3, 2015 and December 28, 2013.

Interest in Registered Investment Companies:

Shares of mutual funds are valued based on net asset value (“NAV”) of the fund in active markets and classified within Level 1 of the fair value hierarchy.

Common Stock:

Investments in common stock valued at the quoted prices in active markets are classified within Level 1 of the fair value hierarchy. The fair values of securities traded in inactive markets or estimated using observable inputs are generally classified within Level 2 of the fair value hierarchy.

Fixed Income Securities:

Investments in fixed income securities valued at the quoted prices in active markets are classified within Level 1 of the fair value hierarchy. The fair values of securities that are (i) traded in inactive markets, (ii) estimated using observable inputs, or (iii) principally derived from observable market data by correlation, are generally classified within Level 2 of the fair value hierarchy.

Collective Trusts – Cash Equivalents:

The fair value of other collective funds is measured using the NAV per unit based on the quoted market price of the respective fund’s underlying investments. Investments which are redeemable at or near year-end at NAV per share are classified within Level 2 of the fair value hierarchy. There are no restrictions on redemptions and the funds are daily traded.

A fair value hierarchy prioritizes valuation techniques used in measuring fair value into three levels. The three levels in order of priority are as follows: Level 1) unadjusted quoted prices in active markets for identical assets; Level 2) quoted prices in markets that are not considered active or asset valuations for which all significant inputs are observable, either directly or indirectly, or asset valuations principally derived from observable market data by correlation; and Level 3) prices or valuations that require significant unobservable inputs.

($ in thousands)

The following tables set forth by level, within the fair value hierarchy, the Plan's investments at fair value as of January 3, 2015 and December 28, 2013.

Investments at Fair Value as of January 3, 2015	Level 1	Level 2	Level 3	Total
Interest in registered investment companies:				
Domestic equities - Large cap	$ 5,180	$ -	$ -	$ 5,180
Domestic equities - Mid cap	1,596	-	-	1,596
Domestic equities - Small cap	771	-	-	771
Foreign equities - International, Large cap	4,042	-	-	4,042
Foreign equities - Emerging Markets, Large cap	2,568	-	-	2,568
Real estate investment trusts	4,757	-	-	4,757
Alternative investments - Commodities	3,811	-	-	3,811
Common Stock - Domestic - Small cap	2	-	-	2
Fixed income securities, Investment Grade:				
Corporate bonds	-	22,460	-	22,460
Government bonds and agency debt	9,003	-	-	9,003
Municipal bonds	-	873	-	873
Collective Trusts - Cash Equivalents	-	887	-	887
Total assets at fair value	$ 31,730	$ 24,220	$ -	$ 55,950

Investments at Fair Value as of December 28, 2013	Level 1	Level 2	Level 3	Total
Interest in registered investment companies:				
Domestic equities - Large cap	$ 6,801	$ -	$ -	$ 6,801
Domestic equities - Mid cap	1,882	-	-	1,882
Domestic equities - Small cap	1,082	-	-	1,082
Foreign equities - International, Large cap	5,242	-	-	5,242
Foreign equities - Emerging Markets, Large cap	3,500	-	-	3,500
Real estate investment trusts	4,386	-	-	4,386
Alternative investments - Commodities	6,152	-	-	6,152
Common Stock - Domestic - Small cap	2	-	-	2
Fixed income securities, Investment Grade:				
Corporate bonds	-	20,524	-	20,524
Government bonds and agency debt	9,577	-	-	9,577
Municipal bonds	-	521	-	521
Collective Trusts - Cash Equivalents	-	377	-	377
Total assets at fair value	$ 38,624	$ 21,422	$ -	$ 60,046

Contributions

True Value expects to contribute $3,000 to its qualified pension plan and $230 to its SRP plan in 2015.

($ in thousands)

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

		Benefits
2015	$	8,310,000
2016		7,143,000
2017		6,990,000
2018		6,558,000
2019		5,822,000
2020-2023		24,097,000

The assumptions used to determine True Value's pension obligations for all plans were as follows for the years ended:

	2014	2013
Measurement Date	1/3/2015	12/28/2013
Weighted average assumptions:		
Discount rate	3.37%	4.02%
Lump sum rate – current year	3.04%	3.80%
Lump sum rate – long term	4.50%	4.50%

The discount rate of 3.37% was primarily based on spot-yields as of January 3, 2015 from the Aon Hewitt Pension Discount Curve. The Aon Hewitt Pension Discount Curve was developed using high-quality corporate bonds.

The plan assumes a future lump sum conversion rate of 3.04% for 2015 distributions, 3.50% for 2016 distributions, 4.00% for 2017 distributions, and 4.50% for 2018 distributions and thereafter, versus 3.80% for 2014 distributions, 4.00% for 2015 distributions, and 4.50% for 2016 distributions and thereafter in the calculation of the PBO as of January 3, 2015 and December 28, 2013, respectively. For all frozen plan participants, the benefits under the plan are defined as a frozen annuity payable at age 65. Upon termination or retirement, the participant has an option to take the benefit as a lump sum amount. The lump sum is calculated by converting the deferred annuity to a lump sum using the mortality and conversion interest rate set forth in the plan. In general, the lower the lump sum conversion rate, the higher the lump sum benefit payable. Since the liability (PBO) is the present value of the future benefit payments, the assumed lump sum conversion rate will have an impact on the calculation of the PBO.

The expected long-term rate of return on assets assumptions was set in consultation with the plan's investment consultant. The rate is based on expected long-term returns on the plan's asset mix and the consultant's long-term capital market assumptions. For 2014 the rate was 6.50%, which was changed from 7.00% from the prior year. This rate is net of both investment-related expenses and other administrative expenses charged to the pension trust.

The average expected future service under the plan during 2014 was approximately 8.20 years for the qualified plan and 6.25 for the SRP.

Multiemployer Pension Plan

True Value contributes to a multiemployer pension plan under the terms of a single collective-bargaining agreement that cover certain union-represented employees. This plan provides retirement benefits to participants based on their service to contributing employers. The benefits are paid from assets held in trust for that purpose. Trustees are appointed in equal number by employers and unions. The trustees typically are responsible for determining the level of benefits to be provided to participants as well as for such matters as the investment of the assets and the administration of the plans.

($ in thousands)

The risks of participating in multiemployer pension plans are different from single-employer plans. Assets contributed by one employer may be used to provide benefits to employees of other participating employers. This is because the assets contributed by an employer are not specifically earmarked only for its employees. Also, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. In addition, if a participating employer stops participating in a multiemployer pension plan, the employer may be required to pay the plan a final payment based on its allocable share of the underfunded status of the plan, referred to as a withdrawal liability.

As part of True Value's long-term strategic plan, management has decided to exit the Central States pension plan no later than 2018 and therefore has recorded related expenses of $4,944 in fiscal 2014.

True Value's participation in multiemployer pension plans for the plan year ended December 31, 2013, is outlined in the table below. The "EIN/PN" column provides the Employee Identification Number (EIN) and the three-digit plan number (PN). The most recent Pension Protection Act (PPA) zone status available for 2014 and 2013 is for the plan year-ends as indicated below. The zone status is based on information that True Value received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. In addition to regular plan contributions, True Value may be subject to a surcharge if the plan is in the red zone. The "Surcharge Imposed" column indicates whether a surcharge has been imposed on contributions to the plan. The last column lists the expiration date(s) of the collective-bargaining agreement(s) (CBA) to which the plans are subject.
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		Pension Protection Act Zone Status			Contibutions made by True Value				
Pension Trust Fund	EIN / PN	2013	2012	FIP/RP Status Pending/ Implemented	2014	2013	2012	Surcharge Imposed	Expiration Date of CBA
Cental States, Southeast and Sothwest Areas Pension Fund (1)	36-6044243 / 001	Red - 12/31/2013	Red - 12/31/2012	Implemented	$ 110	$ 103	$ 113	No	1/31/2018

(1) True Value's contributions to the multiemployer plan are less than 5% of the total contributions received by the pension fund.

Employee Savings and Compensation Deferral Plan

True Value also contributes to the True Value Company Employee Savings and Compensation Deferral Plan (the "401k Plan") in accordance with IRS regulations. Under the 401k Plan, each participant may elect to contribute an amount up to 50% of the participant's annual compensation, not to exceed $17.5 for 2014 and 2013, and $17.0 for 2012. Also, plan participants who are 50 years of age or older may elect to make additional catch-up contributions not to exceed $5.5 for 2014, 2013 and 2012. The total participants' deferred compensation including True Value's contributions to the participants' balances may not exceed $52 for 2014, $51 for 2013 and $50 for 2012. True Value's 401k Plan included a 100% guaranteed match up to a total of 5% of the participant's annual compensation. Also, based on True Value achieving certain financial goals and at the discretion of the board of directors, an additional 1% of most participants' annual compensation could be earned. True Value recognized costs of $5,890, $5,576 and $5,600 for 2014, 2013 and 2012, respectively, for the 401k Plan. For 2014, 2013 and 2012, no discretionary components were earned.

15. Subsequent Events

True Value has determined as of March 3, 2015, the date the financial statements were available to be issued, that no material subsequent events have occurred that require adjustments or disclosures.

TRUE VALUE COMPANY
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements presented in this Annual Report have been prepared with integrity and objectivity and are the responsibility of the management of True Value. These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and properly reflect certain estimates and judgments based upon the best available information.

True Value maintains a system of internal accounting controls, which is supported by an internal audit program and is designed to provide reasonable assurance, at an appropriate cost, that the Company's assets are safeguarded and transactions are properly recorded. This system is continually reviewed and modified in response to changing business conditions, operations and as a result of recommendations by the internal and external auditors. In addition, the Company has distributed to employees its policies for conducting business affairs in a lawful and ethical manner.

The consolidated financial statements of the Company have been audited by McGladrey LLP, independent auditors. Their accompanying report is based upon an audit conducted in accordance with auditing standards generally accepted in the United States of America.

The Audit Committee of the Board of Directors meets periodically with the independent auditors and with the Company's internal auditors, both privately and with management present, to review accounting, auditing, internal control and financial reporting matters. The Audit Committee recommends to the full Board of Directors the selection of the independent auditors and regularly reviews the internal accounting controls, the activities of the outside auditors and internal auditors and the financial condition of the Company. Both company's independent auditors and internal auditors have free access to the Audit Committee.

TRUE VALUE COMPANY

President and
Chief Executive Officer

Senior Vice President and
Chief Financial Officer

Date: March 3, 2015