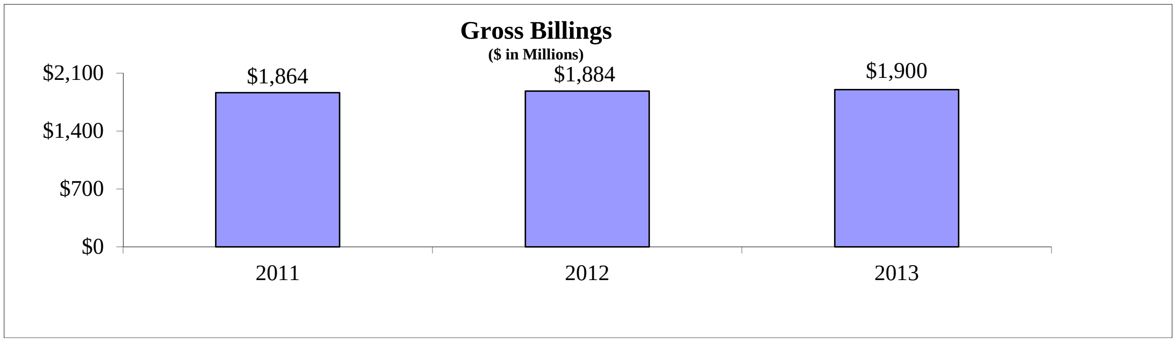
FINANCIAL REPORT 2013

Management's Discussion and Analysis of Financial Condition and Results of Operation
($ in thousands)

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, retailers' comparable store sales at retail ("retail comp store sales"), comparable store product sales to retailers ("wholesale comp store sales") as well as net retailer attrition, gross margin percentage, operational/interest expenses and debt levels.

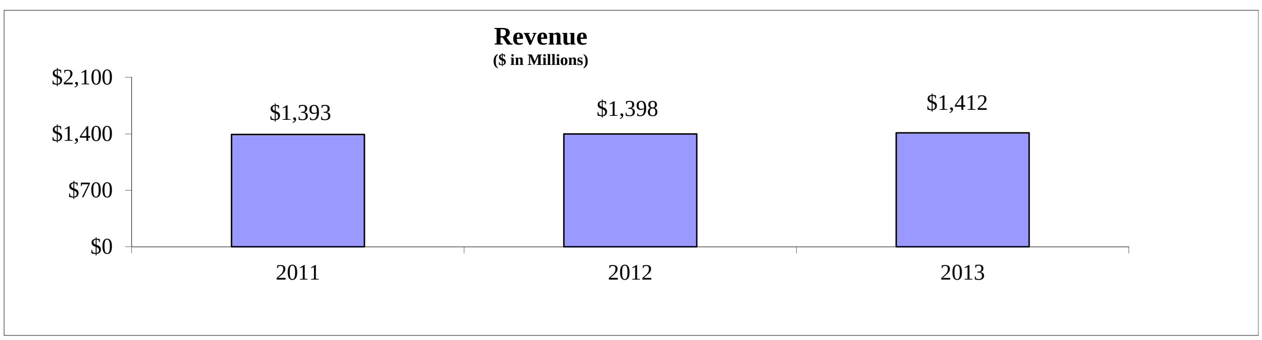
Gross Billings:



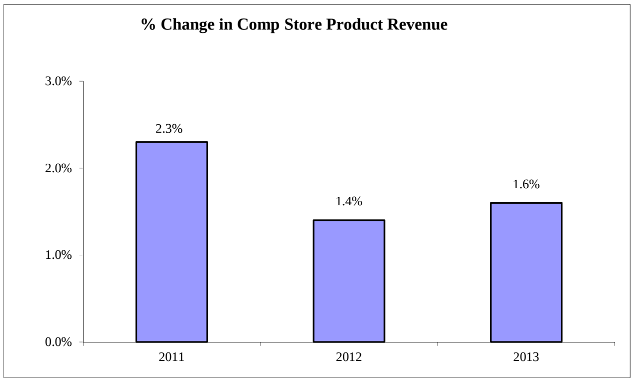
Gross Billings include warehouse revenue, vendor direct revenue and other fees before the reduction for vendor direct costs of revenue. True Value believes that the amount of gross billings is a key performance measure for disclosure. As such, True Value includes Gross Billings in a separate column on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

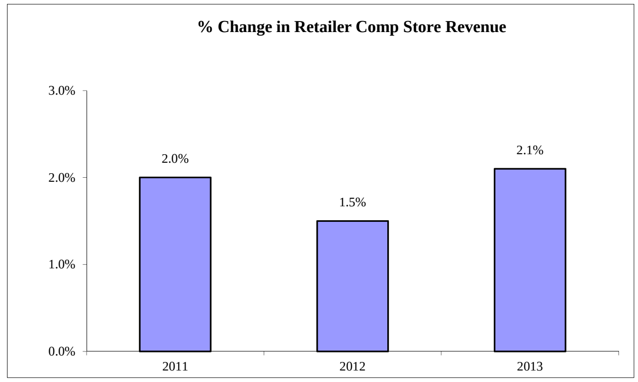
Gross Billings increased for the third year in a row by increasing $16,222, or 0.9%, to $1,900,018 in 2013 compared to $1,883,796 in 2012. The main increase was in warehouse revenue which increased by $16,483, or 1.3% primarily due to the newly expanded Farm, Ranch, Auto and Pet assortments. Vendor direct billings also increased by $3,419, or 0.7%, predominately due to growth in the lumber and building materials and rental equipment departments.

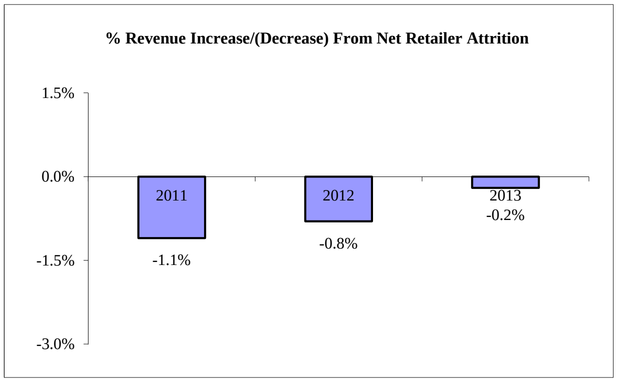
Revenue:



Revenue is the same as Gross Billings except the vendor direct revenue is reduced by the vendor direct costs of revenue. Revenue increased in 2013 by $13,547, or 1.0%, to $1,411,507 compared to $1,397,960 in 2012. The retailer adoption of the newly expanded Farm, Ranch, Auto and Pet assortments drove $10,857 of the increase. The negative sales impact of a late, wet spring season throughout much of the country was predominately offset by significant winter weather in the fourth quarter.







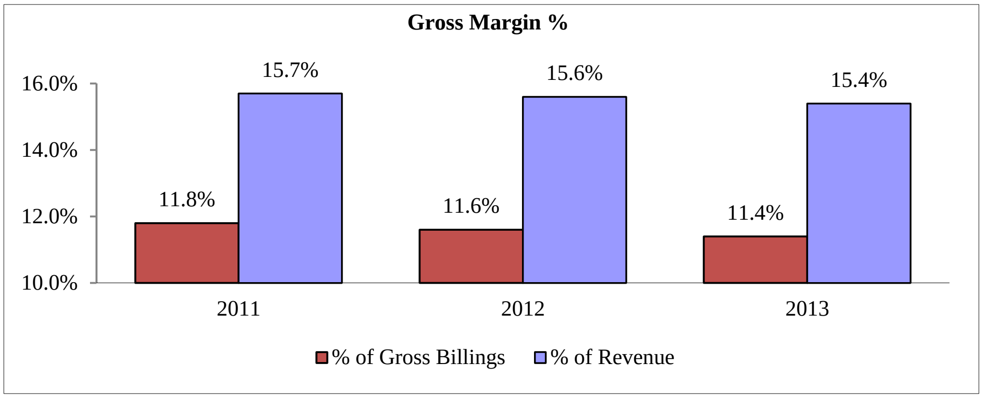
Comparable store product revenue increased in 2013 for the fourth consecutive year. On a gross billings basis, comparable store sales to retailers grew 2.4% while retail comparable store sales grew 2.1%, based upon True Value supplied stock keeping units ("SKUs"), as reported by over 1,600 stores.

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 2013, 38 core domestic retailers converted to True Value, up from 25 in 2012. Also, joining True Value in 2013 were 41 new core hardware stores and nearly 60 affiliate stores, including a 28-store chain of farm and ranch stores in the fourth quarter. In addition, approximately 50 specialty stores signed with True Value in 2013. The number of participating stores decreased to 4,494 from 4,569 at the end of 2012, resulting in lost revenue from terminated stores exceeding revenue increases from new stores. True Value's net revenue attrition continued its positive trend of decreasing as the negative revenue impact from the net decrease in the number of participating stores was the lowest since 2008. True Value's 2013 net retailer revenue attrition was unfavorable by 0.2%. Management attributes this decline in net retailer attrition primarily to market conditions, as the majority of the terminated stores ceased operations.

In regard to the level of patronage from True Value retailers in 2013, 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 2013, the majority of True Value's terminated stores have been from this retailer quartile.

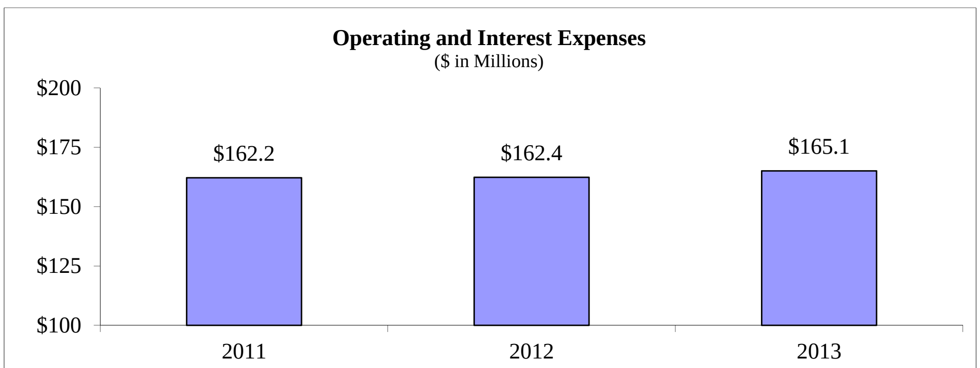
In 2014, True Value's plan calls for both retail and wholesale comp store sales to increase due to further roll out of DTV store remodel activity and modest growth in the U.S. economy. Wholesale comp store revenue should also benefit from the further rollout of the recently expanded classes in the Farm, Ranch, Auto and Pet department. Excluding the additional 53rd week in 2014, the wholesale comp store revenue increase is expected to be comparable to 2013 levels.

Gross Margin %:



A key driver of True Value's profitability is its overall gross margin percentage. True Value experienced a 20 basis point decrease in both the 2013 gross margin percent of revenue and gross billings compared to 2012, due in part to lower Reunion revenue along with higher Reunion costs as well as higher DTV incentives and paint manufacturing costs, partially offset by higher warehouse sales volume.

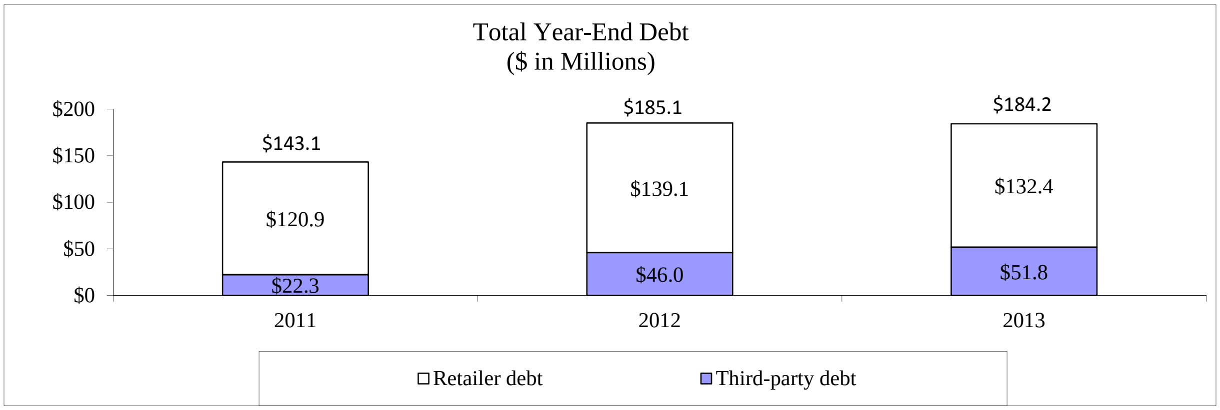
Operating and Interest Expenses:



Operating and interest expenses include logistics and manufacturing, selling, general and administrative, retailer interest and third-party interest expenses.

Management continues to focus on reducing the cost structure of the organization, especially given external pressures such as rising health care costs and retirement obligations. Management actions include the assessment of the operating organization headcount, review of employee benefit programs' costs and market competitiveness. In addition, the logistics and manufacturing operations focus on continuous process improvement. The increase in 2013 total operating and interest expense resulted primarily from higher employee-related costs and higher average levels of retailer notes outstanding.

Debt:



Debt shown above includes all third-party debt and all subordinated retailer notes. True Value's strong financial position, which includes its bank line, allowed it to support retailers' cash flow and to assist them in investing in their businesses. First, on July 31, 2013, True Value decided to pre-pay $15,630 of subordinated retailer promissory notes, which assisted retailers with cash flow. This was the third year in a row that True Value prepaid retailer notes. Second, True Value issued $15,585 in interest-free or low-interest-bearing loans to retailers to help them remodel, expand, relocate, or open branch or new DTV format stores. This correlates to 82 retailer projects encompassing 864,000 square feet of new DTV format retail space. The combination of the these activities and cash flow generated from operations, contributed to True Value having year-end bank borrowings of $35,400, or less than 14.2% of the $250,000 bank line. By comparison, in 2012, True Value had $28,600 outstanding borrowings on the bank line at year-end.

Net Margin:

True Value's net margin of $55,318 for 2013 decreased $19,602, or 26.2%, compared to 2012 of $74,920. A net gain of $16,500 from a litigation settlement in 2012 drove almost the entire decrease. Excluding the 2012 one-time net gain, net margin was down $3,102, or 5.3%. This net margin decrease was primarily due to lower Reunion revenue along with higher Reunion costs as well as higher DTV incentives, paint manufacturing costs, employee-related costs and higher interest expense due to a higher average level of retailer notes outstanding, partially offset by higher warehouse sales volume.

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.

Results of Operations for 2013 compared to 2012

Revenue

A reconciliation of Revenue between 2013 and 2012 follows:

	Revenue	% of 2012 Revenue
	($ in thousands)	
2012 Revenue	**$ 1,397,960**	**100.0%**
Comp Store Revenue:		
Warehouse revenue	19,438	1.4%
Paint manufacturing revenue	(118)	0.0%
Net Comp Store Revenue	19,320	1.4%
Change in participating retailers:		
Terminated retailers:		
Warehouse revenue	(35,464)	(2.5%)
Paint manufacturing revenue	(2,555)	(0.2%)
Net terminated retailers	(38,019)	(2.7%)
New retailers:		
Warehouse revenue	33,358	2.4%
Paint manufacturing revenue	1,919	0.1%
Net new retailers	35,277	2.5%
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	$ Gross Margin (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.

Logistics and manufacturing expenses	2013	2012	$ Expense (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	$ Expense 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	$ Expense Increase / (Decrease)
Retailers	$5,865	$5,103	$762
Percent to Revenue	0.4%	0.4%	
Percent to Gross Billings	0.3%	0.3%	
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 last year, whereas third-party interest expense was comparable to last year 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	$ Net Margin (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.

Results of Operations for 2012 compared to 2011

Revenue

A reconciliation of Revenue between 2012 and 2011 follows:

	Revenue	% of 2011 Revenue
	($ in thousands)	
2011 Revenue	**$ 1,393,270**	**100.0%**
Comp Store Revenue:		
Warehouse revenue	10,499	0.8%
Paint manufacturing revenue	5,934	0.4%
Net Comp Store Revenue	16,433	1.2%
Change in participating retailers:		
Terminated retailers:		
Warehouse revenue	(32,147)	(2.3%)
Paint manufacturing revenue	(2,267)	(0.2%)
Net terminated retailers	(34,414)	(2.5%)
New retailers:		
Warehouse revenue	21,831	1.6%
Paint manufacturing revenue	1,056	0.1%
Net new retailers	22,887	1.7%
Net change in participating retailers	(11,527)	(0.8%)
Vendor - direct revenue	(1,240)	(0.1%)
Advertising, transportation and other revenue	1,024	0.1%
Total change	4,690	0.3%
2012 Revenue	**$ 1,397,960**	**100.3%**
2012 Gross Billings	**$ 1,883,796**	

Revenue for the year ended December 29, 2012 totaled $1,397,960, an increase of $4,690, or 0.3%, compared to 2011. The overall increase in Revenue was predominately in the new retailer category of $22,887, or 1.7%, primarily due to the 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 $16,433, or 1.2%, which was comparable to the 1.5% increase at retail on True Value-related SKUs as reported from more than 1,600 stores. True Value had an increase in warehouse revenue of $10,499, or 0.8%, which mainly resulted from the continued increase in sales at retail with the most improvement having occurred in the seasonal department due to an increase in storm-related product and in the newly expanded Farm, Ranch, Auto and Pet department. Partially offsetting the sales increases was a decrease in revenue of $34,414, or 2.5%, resulting from terminated retailers.

Gross margin	2012	2011	$ Gross Margin (Decrease)
For the Year Ended	$218,292	$219,338	$(1,046)
Percent to Revenue	15.6%	15.7%	
Percent to Gross Billings	11.6%	11.8%	

Gross margin for the year ended December 29, 2012 decreased by $1,046, or 0.5%, from the prior year. The gross margin was unfavorably impacted by lower product margin, partially offset by favorable outbound transportation and advertising margins. The warehouse product margin declined by $6,262, primarily due to the price roll-back initiative which True Value implemented on approximately 1,000 highly visible SKUs beginning in the fourth quarter of 2011 and continued through first quarter 2012. The price roll-back initiative resulted in True Value absorbing $4,151 in year-over-year gross margin declines.

Partially offsetting the lower product margin was an increase in transportation margin associated with the delivery of product from True Value's distribution centers to retailers, which improved by $2,718. This favorability was mainly due to the 2012 annualized impact of a fuel surcharge and a restructured promotional freight program which True Value implemented during the summer of 2011, compared to True Value absorbing the higher fuel costs in the first half of 2011. In addition, advertising margin increased by $2,086 primarily due to savings in promotional activities as well as improved margin on True Value's reward program mainly as a result of lower costs in 2012 as compared to 2011 which included launch costs.

Logistics and manufacturing expenses	2012	2011	$ Expense Increase
For the Year Ended	$59,565	$58,336	$1,229
Percent to Revenue	4.3%	4.2%	
Percent to Gross Billings	3.2%	3.1%	

Logistics and manufacturing expenses increased by $1,229, or 2.1%, as compared to the prior year. The increase was primarily driven by higher local co-op paint advertising and an increase in general expenses for the paint manufacturing business' colorant project. The regional distribution facilities experienced lower labor benefits, as well as lower utilities, driven by the mild winter season and historically lower natural gas and electricity prices, however, these reductions were offset by a lower level of warehouse costs capitalized into inventory.

Selling, general and administrative expenses	2012	2011	$ Expense (Decrease)
For the Year Ended	$93,923	$95,418	$(1,495)
Percent to Revenue	6.7%	6.8%	
Percent to Gross Billings	5.0%	5.1%	

SG&A expenses decreased $1,495, or 1.6%, as compared to the prior year. In 2012, SG&A expenses decreased predominately due to lower employee benefit expense as well as lower incentive expense as a result of lower achievement of certain performance targets.

Litigation Gain	2012	2011	$ Increase
For the Year Ended	$16,500	$ 0	$16,500
Percent to Revenue	1.2%	0.0%	
Percent to Gross Billings	0.9%	0.0%	

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

Interest expense	2012	2011	$ Expense Increase
Retailers	$5,103	$4,839	$264
Percent to Revenue	0.4%	0.3%	
Percent to Gross Billings	0.3%	0.3%	
Third parties	$3,815	$3,616	$199
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 $264, or 5.5%, and $199, or 5.5%, respectively, as compared to last year. Both increases were primarily due to a higher volume of debt, partially offset by a lower average interest rate. The average outstanding retailer debt increased predominately due to the issuance of subordinated promissory notes related to the prior year patronage dividend. True Value's average third-party debt increased due to higher average daily borrowings on the Bank Facility predominately due to the issuance of DTV loans, as well as True Value investing in additional inventory for the new and expanded assortments of the Farm, Ranch, Auto and Pet department.

Net margin	2012	2011	$ Net Margin Increase
For the Year Ended	$74,920	$60,287	$14,633
Percent to Revenue	5.4%	4.3%	
Percent to Gross Billings	4.0%	3.2%	

The 2012 Net margin of $74,920 increased by $14,633, or 24.3%, from the 2011 Net margin of $60,287. Excluding the 2012 litigation gain, the 2012 Net margin of $58,420 decreased by $1,867, or 3.1%, from the 2011 Net margin of $60,287 mainly due to the price roll-back initiative as well as other reasons as discussed above.

Liquidity and Capital Resources

True Value generated cash of $44,778, $17,968 and $58,421 from operating activities for 2013, 2012 and 2011, respectively. 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. The decrease in cash generated from operating activities in 2012 compared to 2011 was primarily due to the lower accounts payable, partially offset by the higher net margin. The decrease in accounts payable in 2012 was mainly due to a higher level of paid inventory on hand due to the lack of winter storms in early 2012 and the build of inventory for the newly expanded Farm, Ranch, Auto and Pet supply business.

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 2013, 2012 and 2011 of $11,205, $11,245 and $20,119, respectively. Investing activities primarily consist of capital expenditures. In 2013, the cash used for investing activities was comparable to the 2012 levels. In 2012, the decrease in cash used for investing activities was mainly due to capital related to True Value's retail support center's remodel and new customer loyalty rewards program in 2011 that did not reoccur in 2012.

True Value used cash for financing activities in 2013, 2012 and 2011 of $32,072, $7,115 and $47,959, respectively. True Value utilized cash to pay patronage dividends and debt, as well as to redeem Class A and Class B common stock. In 2013, 2012 and 2011, True Value funded these payments with the net cash generated from operating and investing activities. In 2013, 2012 and 2011, True Value also funded these payments with increased borrowings from its revolving credit facility.

True Value's net working capital at December 28, 2013, December 29, 2012 and December 31, 2011, was $185,754, $196,954 and $172,668, respectively. The current ratio at December 28, 2013, December 29, 2012 and December 31, 2011, was 1.48, 1.55 and 1.47, respectively. The decrease in both True Value's available net working capital and current ratio in 2013 compared to 2012 was primarily due to increased inventory levels along with higher accounts payable. The increase in both True Value's available net working capital and current ratio in 2012 compared to 2011was primarily due to increased inventory levels along with lower accounts payable, partially offset by a net increase in current maturities of debt.

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 2014. The Bank Facility should provide sufficient liquidity for future needs until its term ends in 2017.

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 December 28, 2013, accounts receivable and retailer notes receivable, net of $3,670 in allowance for doubtful accounts, were $206,598 and $30,806, 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 December 28, 2013, vendor funds related to unpaid amounts for the rebate programs were included in the vendor and other accounts receivable amount of $26,781.

- *Inventories, net of valuation reserves* – At December 28, 2013, inventories were $323,813, net of $11,901 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 December 28, 2013 and December 29, 2012, Goodwill was comprised of $78,429 for the Wholesale reporting unit, with no Goodwill associated with its Paint Manufacturing reporting unit.

  True Value follows the provisions of 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 both an income approach (discounted cash flows) and market approach (multiples and market transaction data, if available). 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. True Value last performed this two-step "quantitative" goodwill impairment test on December 29, 2012 and concluded there was no impairment.

Effective fiscal year 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. True Value applied the qualitative approach to its Wholesale reporting unit during 2013 and determined there to be no impairment of goodwill.

- *Deferred tax assets* – At December 28, 2013, the accompanying Consolidated Balance Sheet reflects $33,153 of deferred tax assets, principally related to net operating loss carry-forwards, deferred gain recognition and nonqualified notices of allocation. These deferred tax assets, net of deferred tax liabilities of $5,261, are offset by a full valuation allowance at December 28, 2013. True Value had approximately $7,209 of tax operating loss carryforwards available to offset future taxable income. In general, such carryforwards must be utilized within 20 years of incurring the net operating loss. At 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.

- *Benefit plans* – At December 28, 2013, total accruals of $9,460 related to benefit plans were included in Accrued expenses of $63,810, Pension of $8,324 and Other long-term liabilities of $28,565 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.

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

	2013	**2012**
Measurement Date	12/28/2013	12/29/2012
Weighted average assumptions:		
Discount rate	4.02%	3.09%
Lump sum rate - current year	3.80%	2.80%
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:

	December 28, 2013	December 29, 2012	December 31, 2011
Measurement Date	12/29/2012	12/31/2011	1/1/2011
Weighted average assumptions:			
Discount rate	3.09%	3.82%	4.67%
Expected return on assets	7.00%	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
	($ in thousands)	
Sensitivity to Discount Rate:		
Projected Benefit Obligation as of 12/28/2013	$ 4,867	$ (4,289)
2013 Pension expense	12	(21)
2013 Settlement expense	310	(308)
Total 2013 Pension expense	$ 322	$ (329)
Sensitivity to Expected Return on Assets:		
2013 Expected Return on Assets	$ (581)	$ 581

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 December 28, 2013, and the related consolidated statements of comprehensive income, cash flows and retailers' equity for the fiscal year 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 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 audit. We conducted our audit 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 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 December 28, 2013, and the results of its operations and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
The consolidated financial statements of True Value Company and its subsidiaries, as of and for the fiscal years ended December 29, 2012 and December 31, 2011, were audited by other auditors whose report dated April 4, 2013, expressed an unmodified opinion on those consolidated statements.

McGladrey LLP

Schaumburg, Illinois
February 23, 2014

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

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

	December 28, 2013	December 29, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,531	$ 3,030
Accounts and notes receivable, net of allowance for doubtful accounts of $3,269 and $3,253	206,598	199,352
Vendor and other accounts receivables	26,781	26,089
Inventories, net of valuation reserves of $11,901 and $10,339	323,813	316,008
Prepaid expenses	13,866	13,130
Total current assets	575,589	557,609
Long-term assets:		
Property, plant and equipment, net	68,150	68,659
Goodwill	78,429	78,429
Retailer notes receivable, net of allowance for doubtful accounts of $401 and $691	30,806	31,221
Other assets	10,635	7,958
Total assets	$ 763,609	$ 743,876
LIABILITIES AND RETAILERS' EQUITY		
Current liabilities:		
Accounts payable	$ 224,814	$ 202,824
Drafts payable	29,543	24,152
Accrued expenses	63,810	59,883
Revolving credit facility	35,400	28,600
Current maturities of long-term debt, retailer notes	15,814	18,376
Current maturities of long-term third-party debt	1,012	1,068
Patronage dividend payable in cash	19,442	25,752
Total current liabilities	389,835	360,655
Long-term liabilities and deferred credits:		
Long-term retailer debt, less current maturities	116,606	120,740
Long-term third-party debt, less current maturities	15,332	16,334
Deferred gain on sale leaseback	22,226	25,004
Pensions	8,324	19,809
Other long-term liabilities	28,565	30,917
Redeemable nonqualified Class B nonvoting common stock, $100 par value; 141,656 and 147,219 shares issued and fully paid	14,166	14,722
Total long-term liabilities and deferred credits	205,219	227,526
Total liabilities and deferred credits	595,054	588,181
Retailers' equity:		
Redeemable Class A voting common stock, $100 par value; 750,000 shares authorized; 238,020 and 243,240 shares issued and fully paid	23,802	24,324
Redeemable qualified Class B nonvoting common stock and paid-in capital, $100 par value; 4,000,000 shares authorized; 1,852,861 and 1,845,784 shares issued and fully paid	186,585	185,877
Deferred patronage	(17,569)	(18,317)
Accumulated deficit	(3,585)	(3,885)
Accumulated other comprehensive loss	(20,678)	(32,304)
Total retailers' equity	168,555	155,695
Total liabilities and retailers' equity	$ 763,609	$ 743,876

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		
	December 28, 2013	**December 29, 2012**	**December 31, 2011**
Gross billings	$ 1,900,018	$ 1,883,796	$ 1,863,991
Revenue	$ 1,411,507	$ 1,397,960	$ 1,393,270
Cost of revenue	1,194,777	1,179,668	1,173,932
Gross margin	216,730	218,292	219,338
Operating expenses:			
Logistics and manufacturing expenses	59,099	59,565	58,336
Selling, general and administrative expenses	96,348	93,923	95,418
Litigation gain, net	-	(16,500)	-
Other income, net	(3,680)	(2,555)	(3,182)
Operating income	64,963	83,859	68,766
Interest expense to retailers	5,865	5,103	4,839
Third-party interest expense	3,758	3,815	3,616
Net margin before income taxes	55,340	74,941	60,311
Income tax expense	22	21	24
Net Margin	$ 55,318	$ 74,920	$ 60,287
Other comprehensive income / (loss):			
Pension liability adjustment for deferred actuarial gain / (loss)	11,722	(1,467)	(9,782)
Post-retirement liability for deferred actuarial (loss) / gain	(105)	(282)	1,430
Other gain / (loss)	9	10	(91)
Comprehensive Income	$ 66,944	$ 73,181	$ 51,844

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

TRUE VALUE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in thousands)

	For the Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Operating activities:			
Net margin	$ 55,318	$ 74,920	$ 60,287
Adjustments to reconcile net margin to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	17,297	17,606	15,398
Provision to allowance for doubtful accounts	204	682	111
Provision for inventory reserves	6,513	6,309	5,758
Loss on disposal and sale of assets	80	756	62
Amortization of deferred gain on sale leaseback	(2,778)	(2,778)	(2,778)
Changes in operating assets and liabilities:			
Accounts and notes receivable	(39,788)	(35,930)	(28,053)
Inventories	(14,318)	(18,765)	(26,725)
Other current assets	(94)	196	(1,186)
Accounts payable	21,990	(25,551)	34,006
Accrued expenses	2,533	2,700	3,032
Pension	(263)	(2,096)	(1,025)
Other adjustments, net	(1,916)	(81)	(466)
Net cash and cash equivalents provided by operating activities	44,778	17,968	58,421
Investing activities:			
Additions to property, plant & equipment	(12,576)	(12,005)	(20,308)
Proceeds from sale of properties	19	64	22
Proceeds from collection of notes	1,352	696	167
Net cash and cash equivalents used for investing activities	(11,205)	(11,245)	(20,119)
Financing activities:			
Payment of patronage dividend	(20,515)	(19,175)	(20,104)
Payment of notes, long-term debt and lease obligations	(23,113)	(15,326)	(27,050)
Increase/(decrease) in drafts payable	5,391	3,528	(3,591)
Increase in revolving credit facility, net	6,800	25,200	3,400
Payment of debt issuance costs	-	(488)	-
Proceeds from sale of Redeemable Class A common stock and subscriptions receivable	768	726	474
Purchase of Class A and Class B common stock	(1,403)	(1,580)	(1,088)
Net cash and cash equivalents used for financing activities	(32,072)	(7,115)	(47,959)
Net increase/(decrease) in cash and cash equivalents	1,501	(392)	(9,657)
Cash and cash equivalents at beginning of year	3,030	3,422	13,079
Cash and cash equivalents at end of year	$ 4,531	$ 3,030	$ 3,422

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 January 1, 2011	**259,740**	**$ 25,974**	**1,861,465**	**$ 187,445**	**$ (19,812)**	**$ (19,980)**	**$ (22,122)**	**$ 151,505**
Net margin	-	-	-	-	-	60,287	-	60,287
Reclass stock presented for redemptions to liabilities	(13,740)	(1,374)	(73,693)	(7,370)	-	313	-	(8,431)
Amortization of deferred patronage	-	-	-	-	748	(748)	-	-
Patronage dividend	-	-	82,993	8,300	-	(57,001)	-	(48,701)
Class B stock applied against loss allocation	-	-	(3,425)	(342)	-	342	-	-
Class A stock purchases	4,740	474	-	-	-	-	-	474
Other comprehensive income, net	-	-	-	-	-	-	(8,443)	(8,443)
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**

Redeemable Class A common stock amounts are net of unpaid subscription amounts of $0 relating to no issued shares at December 28, 2013, December 29, 2012 and December 31, 2011.

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

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 2013, 2012 and 2011 ended on December 28, 2013, December 29, 2012 and December 31, 2011, respectively, and contained 52 weeks.

Reclassifications and Adjustments

Certain reclassifications have been made to the prior years' Consolidated Financial Statements and the notes thereto to conform to the current year's presentation. These reclassifications had no effect on Net margin for any period or on Total retailers' equity at the balance sheet dates.

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 December 28, 2013 allowance of $3,670 was comparable to the $3,944 allowance as of December 29, 2012. 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 2013 inventory valuation reserve was $11,901 an increase of $1,562 from the ending 2012 reserve of $10,339. 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 December 28, 2013 and at December 29, 2012, Goodwill was comprised of $78,429 for the Wholesale reporting unit, with no Goodwill associated with its Paint Manufacturing reporting unit.

True Value follows the provisions of 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 both an income approach (discounted cash flows) and market approach (multiples and market transaction data, if available). 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. True Value last performed this two-step "quantitative" goodwill impairment test on December 29, 2012 and concluded there was no impairment.

Effective fiscal year 2013, True Value elected to adopt new guidance which allows the 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. True Value applied the qualitative approach to its Wholesale reporting unit during 2013 and determined there to be no impairment of goodwill.

Accumulated other comprehensive loss

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

	December 28, 2013	**December 29, 2012**
	($ in thousands)	
Pension	$ 22,191	$ 33,913
Post retirement	(1,490)	(1,595)
Other	(23)	(14)
	$ 20,678	$ 32,304

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 $508,748, $505,329 and $491,455 for 2013, 2012 and 2011, 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 $49,943 and $58,624 for 2013, respectively, $51,454 and $58,583 for 2012, respectively, and $52,965 and $55,762 for 2011, 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 $38,309, $38,542, and $41,769 in 2013, 2012 and 2011, respectively, and are included in Cost of revenue.

Repairs and Maintenance Expense

Expenditures which extend the useful lives of True Value's property 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 $1,266, $1,366, and $1,017 in 2013, 2012 and 2011, 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 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 December 28, 2013 and December 29, 2012, 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 2008 and prior. True Value is still subject to state audits in seven states for its tax year 2009 and remains open to audit for most jurisdictions for years 2010 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.

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, or remodel existing stores into the Destination True Value ("DTV") format. 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 retailers. 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 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. At December 29, 2012, True Value had $39,485 in loans outstanding discounted at an average interest rate of 5.44% and $6,174 in unamortized discount remaining. During 2013 and 2012, $1,286 and $1,060, respectively, of discount was recognized as a reduction of revenue and $1,968 and $1,554, 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:

	December 28, 2013	December 29, 2012
	($ in thousands)	
Notes receivable, gross	$ 44,140	$ 42,623
Less estimated patronage applications	5,512	-
Net	38,628	42,623
Less current portion	7,421	10,711
Less allowance for doubtful accounts	401	691
Notes receivable, net	$ 30,806	$ 31,221

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 December 28, 2013 and December 29, 2012 was as follows:

	December 28, 2013	December 29, 2012
	($ in thousands)	
Notes receivable:		
Ending balance individually evaluated for impairment	$ 3,208	$ 4,334
Ending balance collectively evaluated with no impairment	40,932	38,289
Ending principal balance	$ 44,140	$ 42,623

True Value has evaluated the collectability of the accounts and notes receivable and has established an allowance for doubtful accounts of $3,670 and $3,944 at December 28, 2013 and December 29, 2012, 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 2013 and 2012 were as follows:

	December 28, 2013	December 29, 2012
	($ in thousands)	
Allowance for doubtful accounts:		
Beginning balance	$ 3,944	$ 3,900
Provision	204	622
Net write-off	(478)	(578)
Ending balance	3,670	3,944
Reclass to current	(3,269)	(3,253)
Long-term allowance for doubtful accounts	$ 401	$ 691

The degree of credit risk assessed on accounts and notes receivables and the related allowance for doubtful accounts for 2013 and 2012 were as follows:

	Accounts and notes receivables, gross	Allowance for doubtful accounts
	($ in thousands)	
December 28, 2013		
Low	$ 233,776	$ 258
Medium	4,078	575
High	3,220	2,837
Total	$ 241,074	$ 3,670
December 29, 2012		
Low	$ 227,231	$ 300
Medium	3,829	613
High	3,457	3,031
Total	$ 234,517	$ 3,944

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:

	December 28, 2013	December 29, 2012
	($ in thousands)	
Manufacturing inventories:		
Raw materials	$ 3,158	$ 3,151
Work-in-process and finished goods	21,013	17,279
Manufacturing inventory reserves	(1,548)	(844)
	22,623	19,586
Merchandise inventories:		
Warehouse inventory	311,543	305,917
Merchandise inventory reserves	(10,353)	(9,495)
	301,190	296,422
	$ 323,813	$ 316,008

The amount of direct and indirect acquisition costs included in ending inventory was $20,455 and $20,038 at December 28, 2013 and December 29, 2012, respectively.

4. Property, Plant & Equipment

Property, Plant & Equipment consisted of the following at:

	December 28, 2013	December 29, 2012
	($ in thousands)	
Buildings and improvements	$ 92,235	$ 89,683
Machinery and warehouse equipment	69,886	69,701
Office and computer equipment, and software	135,912	133,274
Transportation equipment	18,124	17,904
	316,157	310,562
Less: accumulated depreciation	(250,347)	(244,243)
	65,810	66,319
Land	2,340	2,340
	$ 68,150	$ 68,659

Depreciation expense for 2013, 2012 and 2011, was $13,689, $13,820 and $13,912, 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 $1,106, $1,169 and $1,016 for 2013, 2012 and 2011, 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 $1,626 and $3,221 at December 28, 2013 and December 29, 2012, 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:

	December 28, 2013	December 29, 2012
	($ in thousands)	
Payroll and related taxes and benefits	$ 30,110	$ 30,492
Unearned revenue	9,304	8,180
Liability insurance	4,748	4,852
Advertising	3,456	3,298
Other	16,192	13,061
	$ 63,810	$ 59,883

6. Debt Arrangements

Long-term debt consisted of the following at:

	December 28, 2013	December 29, 2012
	($ in thousands)	
Real estate mortgage	16,175	17,023
Other	169	379
Total third-party debt	16,344	17,402
Subordinated promissory and subordinated promissory installment notes	132,420	139,116
	148,764	156,518
Less amounts due within one year	(16,826)	(19,444)
	$ 131,938	$ 137,074

The weighted average of stated interest rates on total debt was 4.69% and 4.52% as of December 28, 2013 and December 29, 2012, respectively.

Bank Facility

True Value has a $250,000 senior secured revolving credit facility ("Bank Facility") that matures in April 2017. True Value's availability as of December 28, 2013 and December 29, 2012, was $207,531 and $213,681, respectively, after taking into account outstanding letters of credit.

At December 28, 2013 and December 29, 2012, True Value had $35,400 and $28,600 in revolving credit loans, respectively. As of December 28, 2013 and December 29, 2012, 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 2.1% and 2.2% for 2013 and 2012, respectively. The average year-to-date fees charged for use of the Bank Facility were 0.3% for both 2013 and 2012.

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, compliance with quarterly financial covenants, 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. Substantially all of True Value's assets, excluding property, plant & equipment, are pledged as security for the Bank Facility. As of December 28, 2013, 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 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 2013, notes maturing in June and December were extended for an additional six months at rates of 2.75% and 2.5%, respectively, and approximately 89% and 87%, respectively, of the maturing note values were renewed. In 2012, 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 3.25% and 3.0%, respectively, and approximately 93% and 88%, respectively, of the maturing note values were renewed. True Value's management decided in 2013, 2012 and 2011 to prepay certain subordinated promissory notes maturing in December 2015, December 2012 and December 2011 in the amount of $15,630, $7,488 and $15,972, 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 2013 a renewal option, redemption at maturity or prepayment before maturity. In December 2013, True Value set-off $6,176 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.

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 7, "Retailers' Equity – Capital Stock Redemption").

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

	December 28, 2013	**December 29, 2012**
	($ in thousands)	
Subordinated promissory notes at interest rates from 2.50% to 5.50%, maturing from 2013 to 2022	$ 95,605	$ 95,276
Accrued dividend notes liability	20,798	28,097
Subordinated promissory installment notes at interest rates of 1.76% to 3.65% maturing from 2013 to 2017	14,809	13,477
Accrued stock redemption liability	1,208	2,266
	132,420	139,116
Less amounts due within one year	(15,814)	(18,376)
	$ 116,606	$ 120,740

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 2013, the subordinated promissory notes that will be issued with the distribution of the patronage dividend in 2014, will bear an interest rate of 5.5% and mature in 2023. For fiscal 2012, the subordinated promissory notes that were issued with the distribution of the patronage dividend in 2013, bear an interest rate of 5.5% and mature in 2022.

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

Principal payment schedule for long-term debt:

	2014	2015	2016	2017	2018	Thereafter
			($ in thousands)			
Real Estate Mortgage	907	970	1,037	1,109	1,186	10,966
Subordinated promissory and subordinated promissory installment notes	15,814	4,660	3,488	19,947	242	88,270
Other	105	41	20	3	-	-
Total	$ 16,826	$ 5,671	$ 4,545	$ 21,059	$ 1,428	$ 99,236

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 December 28, 2013.

	Operating
	($ in thousands)
2014	$ 29,949
2015	27,644
2016	26,104
2017	26,142
2018	25,516
Thereafter	82,986
Net minimum lease payments	$ 218,341

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 $31,116, $30,653 and $31,796 for the years ended December 28, 2013, December 29, 2012 and December 31, 2011, respectively. Long-term deferred rent of $19,957 and $20,875 at December 28, 2013 and December 29, 2012, 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 and is being amortized to income on a straight-line basis over the initial 20-year lease term. As of December 28, 2013, the balance of the deferred gain was $22,226. 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 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 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 because they have 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.

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 2012 and 2013 the rate was 1.89% and 1.76%, respectively, and for 2014 the rate will be 2.72%. 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 main 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 2012 patronage dividend that was paid in 2013, the board of directors authorized an additional 12.8% over the base 5% of the net patronage source income, as a reasonable reserve, to reduce the accumulated deficit account. For the 2013 patronage dividend that will be paid in 2014, the board of directors left the base 5% of the net patronage source income, as a reasonable reserve.

For the past six years, True Value has paid a consistent regular patronage dividend. After retaining the board authorized annual 5% reserve, the patronage dividend related to the year ended December 28, 2013 is $54,277. 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. True Value's policy is to pay 30% of the patronage dividend in cash. However, recently and again in 2013, True Value had chosen to pay an elevated percentage of approximately 40% of the patronage dividend in cash before any application of set-off rights. After applying set-off rights to retailers with outstanding loans, True Value paid $18,688 of the dividend in cash. In addition, approximately $754 was paid in cash in lieu of subordinated promissory notes being issued for de minimis amounts. True Value paid the remainder through the issuance of True Value's Redeemable qualified Class B nonvoting common stock and subordinated promissory notes. 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 and patronage dividends of $57,001 related to the year ended December 31, 2011, were paid in March 2012; approximately 40% of which was paid in cash for both 2012 and 2011. 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.

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 December 28, 2013, True Value had outstanding letters of credit in the amount of $7,069.

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:

	December 28, 2013	December 29, 2012	December 31, 2011
		($ in thousands)	
Current:			
Federal	$ -	$ -	$ -
State	22	21	24
Total current	22	21	24
Deferred:			
Federal	-	-	-
State	-	-	-
Total deferred	-	-	-
	$ 22	$ 21	$ 24

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:

	December 28, 2013	December 29, 2012	December 31, 2011
		($ in thousands)	
Tax at statutory rate	$ 19,369	$ 26,376	$ 21,109
Effects of:			
Patronage dividend	(18,997)	(22,312)	(20,212)
State income taxes, net of federal benefit	14	14	16
Decrease in valuation allowance	(578)	(4,271)	(1,122)
Other, net	214	214	233
	$ 22	$ 21	$ 24

Deferred income taxes reflect the net tax effects to True Value of its net operating loss carryforwards, which expire in years through 2033, alternative minimum tax credit carryforwards, 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 2013 by $1,706.

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.

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

	December 28, 2013	December 29, 2012
	($ in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 2,857	$ 4,563
AMT credit carryforward	575	612
Nonqualified notices of allocation	5,716	6,108
Vacation pay	2,310	2,370
Deferred gain	10,002	11,113
Severance and restructuring costs	1,537	1,292
Book depreciation in excess of tax depreciation	2,734	1,511
Rent expense	2,362	2,598
Inventory capitalization	611	292
Bad debt expense	1,468	1,578
Other	2,981	1,684
Total deferred tax assets	33,153	33,721
Valuation allowance for deferred tax assets	(27,892)	(28,355)
Net deferred tax assets	5,261	5,366
Deferred tax liabilities:		
Tax depreciaton in excess of book depreciation	-	-
Contributions to fund retirement plans	5,261	5,366
Net deferred taxes	$ -	$ -

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:

	December 28, 2013	December 29, 2012	December 31, 2011
		($ in thousands)	
Distribution of annual patronage dividend:			
Patronage dividend payable in cash	$ 19,442	$ 25,752	$ 23,299
Issuance of subordinated promissory notes	20,798	28,097	25,402
Issuance of Redeemable Class B nonvoting common stock	8,525	9,151	7,958
Redemption of retail growth notes	5,512	-	-
Other	-	-	342
Total	$ 54,277	$ 63,000	$ 57,001

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 2013 and 2012 of $9,663 and $13,609, respectively, against obligation owed by the retailer to True Value of $1,096 and $3,427. The remaining amount due to retailers was partially satisfied with subordinated promissory installment notes of $8,189 and $8,403 in 2013 and 2012, 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 2013, 2012 and 2011, set off $11,060, $7,682 and $4,009, 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 2013, 2012 and 2011, True Value extended subordinated promissory notes, at the option of the retailer, in the amounts of $10,026, $12,873 and $14,722, respectively. In addition, in December 2013, True Value set-off $6,176 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 2013, 2012 and 2011 were $15,585, $16,896 and $15,774, respectively.

Cash paid for interest during 2013, 2012 and 2011 totaled $7,711, $7,858 and $7,183, respectively. Cash paid for state income taxes during 2013, 2012 and 2011 totaled $21, $23 and $20, respectively.

14. Benefit Plans

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

	December 28, 2013	December 29, 2012
	($ in thousands)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 81,910	$ 76,868
Service cost	-	-
Interest cost	2,352	2,768
Benefit payments	(374)	(347)
Actuarial/losses	(7,538)	7,968
Settlements	(7,640)	(5,347)
Projected benefit obligation at end of year	68,710	81,910
Change in plan assets:		
Fair value of plan assets at beginning of year	61,785	56,115
Actual return/(loss) on assets	2,694	5,513
Employer contributions	3,580	5,851
Benefit payments	(492)	(347)
Annuity contract premium adjustment	-	-
Settlements	(7,521)	(5,347)
Fair value of plan assets at end of year	60,046	61,785
Reconciliation of funded status:		
Unfunded status at end of fiscal year	(8,664)	(20,125)
Actuarial loss/(gain):		
Prior year balance	33,913	32,446
Current year amortization	(3,089)	(2,665)
Current year settlement impact	(2,465)	(2,254)
Loss/(gain) arising during current period	(6,168)	6,386
Actuarial loss	22,191	33,913
Net amount recognized	$ 13,527	$ 13,788

The Accumulated Benefit Obligation (“ABO”) for True Value administered pension plans was $68,710 and $81,910 at December 28, 2013 and December 29, 2012, respectively.

As of December 29, 2012, the pension plans had unrecognized actuarial losses of $33,913. 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 December 28, 2013, unrecognized actuarial losses decreased $11,722 to $22,191. Major sources of this change that occurred during 2013 resulted from increases in the discount rate and lump sum conversion rate during 2013 of $4,568. Changes in actuarial demographic assumptions resulted in a gain of $2,514. A net decrease resulting from actuarial losses recognized under ASC 715-30 settlement accounting of $2,465 and amortization of actuarial losses recognized of $3,089, and actuarial/demographic gains of $455 further reduced the total unrecognized actuarial losses. Partially offsetting these gains was a loss of $1,369 due to less than favorable expected returns on plan assets. 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 $2,952 and $3,478 as of December 28, 2013 and December 29, 2012, respectively. Since the SRP is an unfunded plan, there were no plan assets at December 28, 2013 and December 29, 2012.

At December 28, 2013, True Value recorded in the Pensions and Accrued expenses lines of the Consolidated Balance Sheet a net unfunded PBO of $8,664 for all True Value administered pension plans. The unrecognized actuarial loss for both plans of $22,191 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 2014 resulting from recognition of deferred actuarial losses from amortization and settlements is $1,859.

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

	December 28, 2013	December 29, 2012	December 31, 2011
		($ in thousands)	
Components of net periodic pension cost:			
Service cost	$ -	$ -	$ -
Interest cost	2,352	2,768	3,137
Expected return on assets	(4,064)	(3,932)	(3,703)
Amortization of actuarial loss	3,089	2,665	2,260
Annuity contract premium adjustment	-	-	126
Settlement loss	2,465	2,254	2,823
Net pension cost	$ 3,842	$ 3,755	$ 4,643

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

	December 28, 2013	December 29, 2012	December 31, 2011
Measurement Date	12/29/2012	12/31/2011	1/1/2011
Weighted average assumptions:			
Discount rate	3.09%	3.82%	4.67%
Expected return on assets	7.00%	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.

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	December 28, 2013	December 29, 2012
Domestic equities - Large cap	10.5%	11.3%	15.7%
Domestic equities - Mid cap	3.0%	3.1%	5.0%
Domestic equities - Small cap	1.5%	1.8%	2.0%
Foreign equities - International, Large cap	8.5%	8.7%	11.0%
Foreign equities - Emerging Markets, Large cap	6.0%	5.9%	5.2%
Real estate investment trusts	8.0%	7.3%	7.1%
Alternative investments - Commodities	10.5%	10.3%	8.7%
Fixed income - Investment grade	52.0%	51.0%	43.0%
Collective Trusts - Cash Equivalents	0.0%	0.6%	2.3%
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 December 28, 2013 and December 29, 2012.

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.

The following tables set forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 28, 2013 and December 29, 2012.

	Investments at Fair Value as of December 28, 2013			
	Level 1	Level 2	Level 3	Total
	($ in thousands)			
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

	Investments at Fair Value as of December 29, 2012			
	Level 1	Level 2	Level 3	Total
	($ in thousands)			
Interest in Registered Investment Companies:				
Domestic equities - Large cap	$ 9,720	$ -	$ -	$ 9,720
Domestic equities - Mid cap	3,119	-	-	3,119
Domestic equities - Small cap	607	-	-	607
Foreign equities - International, Large cap	6,830	-	-	6,830
Foreign equities - Emerging Markets, Large cap	3,194	-	-	3,194
Real estate investment trusts	4,383	-	-	4,383
Alternative investments - Commodities	5,348	-	-	5,348
Common Stock - Domestic - Small cap	591	16	-	607
Fixed Income Securities, Investment Grade:				
Corporate bonds	-	17,792		17,792
Government bonds and agency debt	8,541			8,541
Municipal bonds	-	208		208
Collective Trusts - Cash Equivalents	-	1,436	-	1,436
Total assets at fair value	$ 42,333	$ 19,452	$ -	$ 61,785

Contributions

True Value expects to contribute $3,000 to its qualified pension plan and $250 to its SRP plan in 2014.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

	Benefits ($ in thousands)
2014	$ 7,835
2015	6,939
2016	6,305
2017	6,515
2018	6,366
2019-2022	24,605

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

	2013	2012
Weighted average assumptions:		
Discount rate	4.02%	3.09%
Lump sum rate - current	3.80%	2.80%
Lump sum rate - long term	4.50%	4.50%

The discount rate of 4.02% was primarily based on spot-yields as of December 28, 2013 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 3.80% for 2014 distributions, 4.00% for 2015 and 4.50% for 2016 distributions and thereafter, versus 2.8% for 2013 distributions, 3.5% for 2014 distributions, 3.5% for 2015 distributions and 4.5% for 2016 distributions and thereafter in the calculation of the PBO as of December 28, 2013 and December 29, 2012, 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 2013 the rate was 7.00%, which is unchanged 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 2013 was approximately 8.35 years for the qualified plan and 5.18 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.

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.

True Value's participation in multiemployer pension plans for the year ended December 31, 2012, 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 2013 and 2012 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 list the expiration date(s) of the collective-bargaining agreement(s) (CBA) to which the plans are subject.

		Pension Protection Act Zone Status			Contibutions made by True Value				
Pension Trust Fund	EIN / PN	2012	2011	FIP/RP Status Pending/ Implemented	2013	2012	2011 (1)	Surcharge Imposed	Expiration Date of CBA
Cental States, Southeast and Sothwest Areas Pension Fund (2)	36-6044243 / 001	Red - 12/31/2012	Red - 12/31/2011	Implemented	$ 103	$ 113	$ 253	No	1/31/2018

(1) Includes a one-time lump sum payment due to a prior period adjustment.
(2) 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 2013, $17.0 for 2012 and $16.5 for 2011. 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 2013, 2012 and 2011. The total participants' deferred compensation including True Value's contributions to the participants' balances may not exceed $51 for 2013, $50 for 2012 and $49 for 2011. 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 $5,576, $5,600 and $5,267 for 2013, 2012 and 2011, respectively, for the 401k Plan. For 2013, 2012 and 2011, no discretionary components were earned.

16. Subsequent Events

True Value has determined as of February 23, 2014, 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 Unites 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

David A Shadduck

Senior Vice President and
Chief Financial Officer

Date: February 23, 2014