

True Value®

START RIGHT. START HERE.™





OUR VISION

TO HELP EVERY TRUE VALUE BE THE BEST HARDWARE STORE IN TOWN

True Value retailers – and the True Value organization – depend on a loyal customer base and a steady stream of new customers. Today, these customers include a younger generation of men and women, first-time homeowners and do-it-yourself enthusiasts. We're on our way to winning over these customers by offering them a shopping experience commensurate with the superior customer service we're known for providing.

With Destination True Value as their guide, our retailers have a clear direction to growth and success. This new, flexible format – designed by retailers, for retailers – harnesses the five principles of retailing to help our store owners serve the ultimate customer and better compete in today's marketplace. Building upon the local expert advice and superior customer service that are synonymous with the True Value brand, this bold, retail-focused format provides project inspiration and flexible product assortments to meet specific market needs, packaged in a store environment that "works."

As we continue to build and strengthen the True Value brand, we're ensuring our retailers a solid position in the hardware industry for years to come. By working together and putting retail success at the heart of everything we do, we are committed to help make every True Value the best hardware store in town.

SHAREHOLDER LETTER TO MEMBERS

At True Value, we've put retail at the heart of everything we do and the results are exciting. This was a banner year for the co-op. We tightened the retail focus that will take this company into the future and launched our new store format – Destination True Value. Keeping a constant eye on our vision, “to help every True Value be the best hardware store in town,” we proved that new ideas, enthusiasm and cooperation will lead us to growth and success.

Based on your feedback, we're transforming the way we conduct business and serve our retailers. We're honing our mission as a world-class wholesaler with a strong retail focus, growing profitably. We're providing solutions and delivering products, programs and services with retail knowledge and insight at the core. Thanks to your efforts, we've built a solid foundation and can turn our focus to growth – both at the retail and wholesale levels.

Financial results for 2007 were solid given the slowing economic climate. Revenue was down 0.5 percent to \$2,040.6 million and net margin totaled \$63.8 million. Excluding \$9.9 million of non-recurring gains reported in 2006 related to litigation reserves and benefit plans, net margin increased \$0.9 million in 2007. Our total year-end debt continued to decline to the co-op's lowest level since 1979.

IMPROVING RETAIL SUPPORT

Operational improvements and efficiencies are key to co-op and member success. It is also crucial that we provide our retailers with the right products at the right price, and, that we're easy to do business with. We understand that taking the cost out of doing business is a top priority. In the past year, we:

- > Conducted product line reviews to continue to help update assortments and improve member sales and margins; we reviewed 24 product categories in 2007
- > Continued the simplified ordering rollout, adding features that increase order visibility and consolidate order types to even our inventory receipts and cash flow
- > Created simplified invoicing to provide enhanced access to and visibility of statement charges
- > Reduced transportation and distribution expenses to plan by \$3.1 million to be returned to you in this year's patronage dividend.

BUILDING RETAIL STRENGTH

To help our retailers better serve their customers, we must build new retail capabilities and competencies that will make us smarter providers of retail support and solutions. We've tightened our focus on the “Five Ps”:

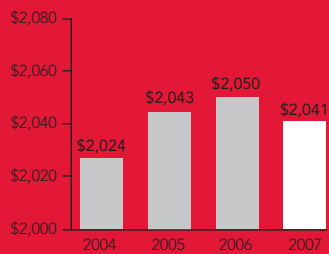
- > **Place:** With Destination True Value, the co-op provides members with a flexible format, adaptable store layouts and a clear set of retail standards to ensure every store is clean, well-lit, well-stocked, easy to navigate and offers customers a quick in and out. Inventory productivity, visual merchandising and IT solutions help retailers deliver a compelling shopping environment.
- > **People:** Providing friendly, knowledgeable, well-trained associates. The co-op offers educational courses and tools, as well as HR management, recruitment and retention solutions.
- > **Product:** Offering a wide variety of national, regional and private label-branded products, effectively merchandised into planogram assortments that help maximize the sales and margins of our geographically diverse membership.
- > **Promotion:** Building consumer awareness of the True Value brand and providing effective local marketing solutions that drive traffic, sales and loyalty. The co-op provides members with regionalized circulars, loyalty marketing through True Value Rewards® and the Marketing Planning Tool to build annual marketing plans.
- > **Price:** Demonstrating a value benefit, the co-op provides members with retail price intelligence. This includes suggested retails on stock warehouse products, highly visible item listings on Memberonline and the Margin Enhancement Program that helps members create a competitive local pricing strategy.

SELECTED FINANCIAL
DATA (\$ IN MILLIONS)

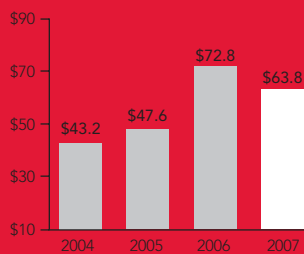
As of and for the Fiscal Year Ended



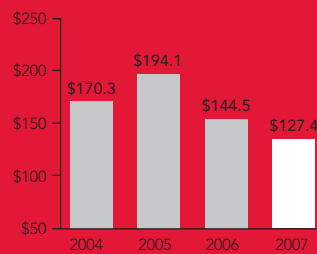
NET REVENUE



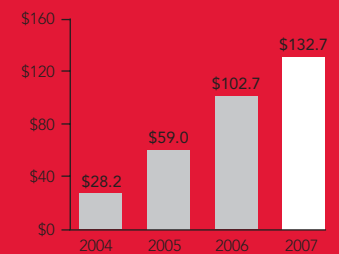
NET MARGIN



TOTAL DEBT



MEMBERS' EQUITY



GROWING OUR BUSINESS AND PEOPLE

Over the next three years, the co-op is committed to adding more than 1.5 million square feet of retail space and \$180 million of retail sales. In 2007 we added 108 new stores in the United States. Our international business also grew with a handled increase of 13 percent out of warehouse. Twelve existing international members opened new stores, another four members completed major expansions or remodels and three new members joined the co-op.

We're not increasing our footprint simply to grow larger, though – we want to grow better. This means continuing to focus on growth in size, retail sales, revenues and product assortments – all at the same time.

An ongoing commitment to training and associate development is the linchpin of our collective success. We must ensure we continue to deliver to our retailers – and they, in turn, deliver to their customers – the superior service, trustworthiness and quality products they've come to expect from True Value.

Going forward, we need to make it easy and profitable for True Value retailers to choose and implement the right solutions.

To do this, our 2008 priorities will be to:

- > Help our members grow their comp store sales
- > Increase investment in advertising to strengthen the True Value brand
- > Achieve target fill rates
- > Reach new store square footage goals
- > Enhance the customer shopping experience to attract new customers and increase purchases from existing customers
- > Continue to grow our associate talent
- > Help our members adopt Destination True Value Retail Principles.

Working as a team, let's build on the current momentum and grow your business in 2008. As always, thank you for your business.

Sincerely,

Brian A. Webb

Brian A. Webb
Chairman

Lyle G. Heidemann

Lyle G. Heidemann
President and Chief Executive Officer

IMPROVING RETAIL SUPPORT

In the competitive world of retailing, you're only as good as your reputation. True Value retailers – just like their customers – have options when it comes to buying products and solutions. Whether a retailer or customer, the same decision-making criteria influence the purchasing decision: cost, quality and service. That's why everything we do aims to make True Value a co-op that's easy to do business with.

You spoke, we listened. Through quarterly member satisfaction surveys, retailers rate the service and support that True Value provides. This feedback – as well as input from member roundtables and retail growth conferences – directly informs and guides adjustments we make to continue improving retail support. Many of the initiatives below were born as a result.

In merchandising, the product line review process enhances the competitiveness of products available to members in their Regional Distribution Centers (RDC). Since the reviews began in 2004, the co-op has reviewed 110 product categories and implemented more than \$54 million in cash and product cost reductions. These savings lower the everyday cost of products to members and help maintain consistent retailer patronage dividends. Twenty-four categories were reviewed in 2007, and 24 more are slated for review in 2008.

A key result of the line review process is the Certified True Blue (CTB) program, which ensures the most up-to-date products are available within a specific product category. CTB assortments are merchandised using a good-better-best sell-up strategy. This helps increase the average ticket and profitability of the category for the retailer. Since the CTB program launched in 2004, more than 73,000 CTB assortments have been sold to True Value members. More than 40 percent of products within Destination True Value are CTB.

Having the right amount of the right products in stock at the right time captures sales. This goes hand in hand with accurate inventory

and delivery – top member concerns. The co-op works diligently to keep its fill rate among the top in the retail industry, striving to provide members an increasingly high degree of satisfaction. To meet this goal, True Value is continuing its commitment to convert its 12 RDCs to an automated warehouse management system that saves time and money and produces more accurate ordering, tracking, filling and delivery of orders.

The retail pricing game can be tricky. Price too high, a product won't sell. Price too low, it isn't worth selling. The Retail Price Enhancement Program targets the right retail price. Scott Allen of Paxton Hardware & Rental, Paxton, Ill., appreciates the program's ability to model pricing changes, compare current pricing to suggested levels and recommend a pricing strategy based on the local competitive landscape. To date, more than 1,600 members have implemented the program and experienced an average increase of 2 percentage points in their gross margin.

In 2007, True Value continued the simplified ordering system rollout to create a more efficient ordering process. Now retailers can view all open orders, including Market-only specials and CTB orders; easily search for promotions and receive order deadline reminders. The new system also provides complete order confirmation and a view of all 'ship later' items. This program exemplifies the co-op's commitment to deliver on its reputation as a company that's easy to do business with.



Improvements to Certified True Blue allow members to expand their assortments based on what's relevant in their market, which translates into increased retail sales and a more compelling shopping experience.

We deliver so you can deliver. With more than 250,000 deliveries per year, the RDCs work hard to provide retailers with the best service and delivery. The "loaded and delivered with pride" initiative is designed to ensure we do a better job of delivering member orders in the best possible condition. "Loaded and delivered with pride" adds another level of responsibility to each pallet packed, truck loaded and shipment delivered, with the goal of an accurate and damage-free delivery each and every time.

Stickers that indicate this added level of support are affixed to packages to symbolize the time and care being taken with each delivery. Because safety is so critical, we also added a "cut caution" note to every pallet. These stickers remind the receiver to cut shrink wrap in two-foot increments to reduce the chance of products falling.

To continue building on our commitment to exemplary service, upon each delivery, drivers will provide members with a survey form so they can rate the load and provide specific feedback.

"THE MERCHANDISING TEAM INVESTS A GREAT DEAL OF TIME AND ENERGY ON THE FRONT END TO ENSURE THE NEW CERTIFIED TRUE BLUE ASSORTMENTS ARE EASY TO IMPLEMENT AND EFFECTIVE. THESE ASSORTMENTS HELP MEMBERS BE MORE COMPETITIVE AND PROFITABLE AT RETAIL."

– Ken Kubis, Division Vice President of Merchandising



BUILDING RETAIL STRENGTH

True Value guides its members to retail growth by providing solid direction and programs proven to increase their retail sales. With the fall 2007 launch of Destination True Value – the co-op’s new retail format – members can take advantage of best practices in retailing, merchandising and store décor, and tailor their stores according to local customers’ needs, with over 400 planograms in 264 core product classes, plus 186 plug-and-play options to round out assortment offerings.

This and every True Value retail program are designed to drive traffic, enhance the shopping experience, increase members’ sales and reaffirm the quality goods and service that customers have come to expect from the True Value brand.

To deliver the ultimate shopping experience, retailers must meet or exceed customer expectations. Customers expect to find knowledgeable sales associates in a clean, well-lit store with competitively priced product assortments relevant to their needs. Circular advertising and in-store promotions help attract customers. When True Value retailers deliver on the five retail principles, first-time visitors become loyal shoppers.

A satisfied customer is a repeat customer. With True Value Rewards, more than 550 members mine customer-specific purchasing behaviors to build repeat business with their best clientele and prospect for new customers.

While repeat business is our retailers’ bread and butter, new shoppers are key to long-term growth. The co-op’s regionalized circulars attract new shoppers and demonstrate the ongoing values available at True Value. To provide additional, flexible local advertising capabilities, True Value introduced a new online ad builder for turnkey, point-and-click development of local newspaper ads and flyers. These marketing tools make retailers even more compelling in their local market.

To reach a new segment of younger customers, True Value expanded into Internet search-engine marketing and banner advertising, and the results were very strong. Media celebrity Steve Watson, host of HGTV’s “Don’t Sweat It,” joined as a

spokesperson who generated millions of media impressions for True Value in 2007.

As customers become more sophisticated, retailers need to keep pace with their in-store technology. We have a strong partnership with Activant and continue to enhance the E4W/Unity system. Since RockSolid’s introduction, more than 450 members have introduced the system and incorporated its significant features. These include True Value Rewards integration, a physical inventory module and the capability to process True Value Gift Card transactions.

With True Value’s new environmental product-merchandising program Greener OptionsSM, members can cater to a growing base of environmentally conscious customers. Introduced in 2007, Greener Options offers a wide range of products – many that were already on True Value shelves – that encourage energy savings, and promote clean air and water.

True Value’s Marketing Planning Tool helped Russ Carlson of Russ’ True Value Hardware in Queen Creek, Ariz., plan advertising for 2007 and analyze his store’s sales month by month. Over the past year, enhancements to this computer-based tool include the addition of historical spending data and automated ordering features. Because no two stores or communities are alike, retail consultants worked with members in 2007 to create more than 1,100 local marketing plans designed to drive retail sales.

In 2008, look for more robust national advertising as we reach out to DIY enthusiasts and the next generation of True Value customers with a multimedia brand and traffic-building campaign in spring and fall.

'THE BEST HARDWARE STORE IN TOWN' Winners

This year True Value gave retailers the chance to officially declare themselves "Best Hardware Store in Town." Members were invited to nominate their stores and enter the contest by filling out an online entry form. Entries were evaluated at different stages by retail consultants, regional managers and the True Value corporate management team. Judging was based on each store's success with the five P's of retailing. Thirteen stores – one from each retail region – were awarded the coveted title. The winners were recognized at the 2008 Spring Market and publicized in a national press release.

Jerry D. Bryant, True Value Home Center, Oakhurst, Calif. | **Erik Burkman**, Brandon True Value, Brandon, S.D.
Paul Cain, Cain True Value Hardware, Carthage, Texas | **Donald Keller**, K&K True Value Hardware, Bettendorf, Iowa
Jeff Lobb, Cameron's True Value Hardware, Oxford, Pa. | **Max Merrick**, Horns True Value Hardware, Portales, N.M.
Thomas A. Morrow, Arthur's True Value Hardware, Orchard Park, N.Y. | **Shelly Moeller**, Harpeth True Value Hardware, Franklin, Tenn. | **Warren E. Sawyer**, Sawyer's True Value, The Dalles, Ore. | **Joseph J. Scapin Jr.**, Lee Hardware True Value, Lee, Mass. | **Robert Schmidt**, Gasser True Value, Maquoketa, Iowa | **Bob Swanson**, Swanson Hardware Supply, Vineland, N.J.
Jim Waters, Waters True Value, Salina, Kan.



In 2007, True Value introduced Steve Watson, host of HGTV's "Don't Sweat It," as its spokesperson. Watson's "hands-on" DIY expertise aligns with True Value's do-it-yourself message. The co-op looks forward to continuing to work with Steve in 2008.



"WE'VE BEEN RUNNING *TRUE VALUE REWARDS* FOR FOUR YEARS. IT HAS INCREASED CUSTOMER TRAFFIC, HELPS US UNDERSTAND CUSTOMER PURCHASE TRENDS AND GENERATES INCREDIBLY USEFUL INFORMATION."

– **Dan Kanis**, Nelson Agri-Center True Value, Viroqua, Wis.

PICTURED LEFT, with business partner **Mark Brueggen**



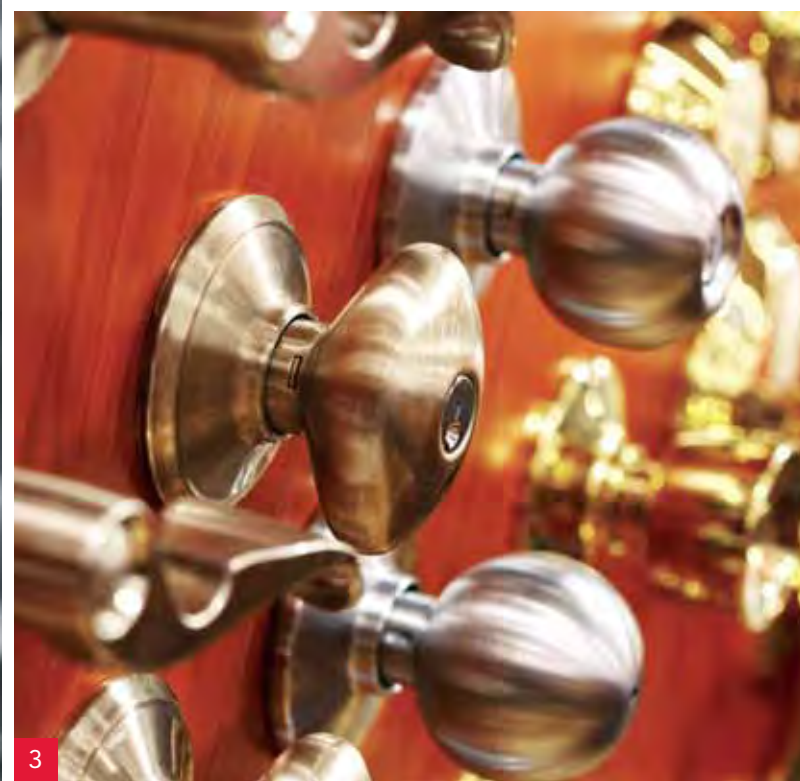
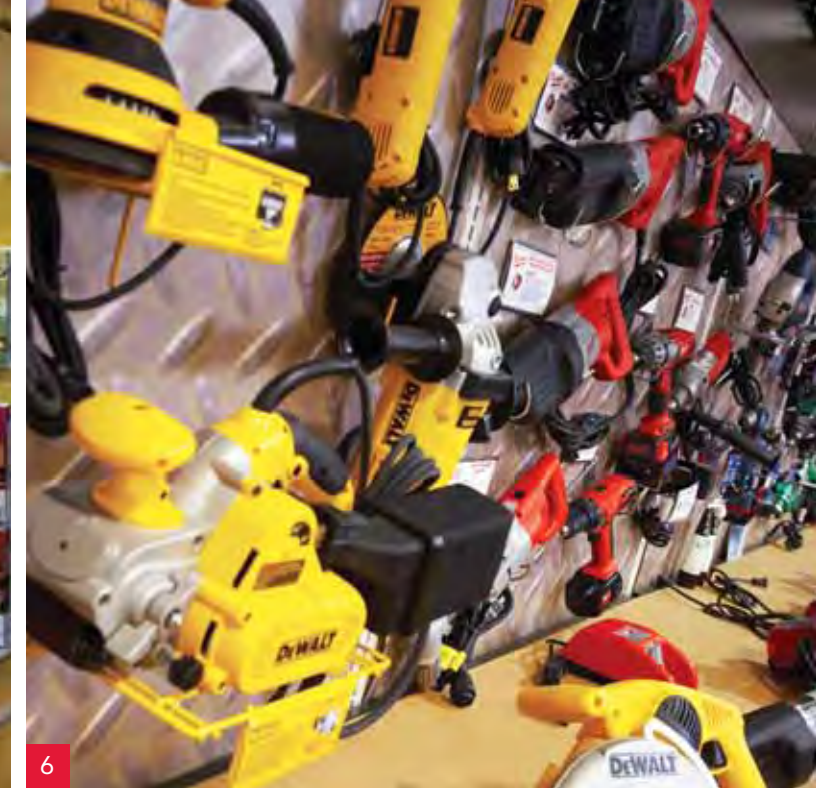
Destination True Value reflects more than two years of research into retail best practices, merchandising science and consumer insights, packaged in a format proven to deliver a compelling customer shopping experience. This customizable format gives True Value retailers clear direction on how to grow and sustain their retail sales, and it ensures the True Value brand a solid position in the retail hardware industry for years to come. While the layout, color palette, overall lighting and product assortments have been refreshed, the most important constants remain.

Behind the doors of each True Value location is a store that reflects the independence of each of our members. Their individuality is evident in the categories and assortments our retailers choose to carry based on what they believe best meets their local customers' needs. Destination True Value offers flexible merchandise options and planograms that work with stores of all sizes and in all types of markets. It allows customers across the country to come to any True Value store for all the expert advice, products and inspiration they need to complete their small home improvement projects.



Doug Christener, North Liberty True Value, North Liberty, Iowa

FLEXIBILITY A consistent shopping experience helps retailers deliver on customer expectations. It also re-energizes the True Value brand. But the local markets we serve also look to our stores to provide product assortments that meet their specific needs. Doug Christener of North Liberty True Value customized the planograms to reflect his North Liberty, Iowa, clientele's needs. "With a recreational area just down the street, I'm leveraging the flexible format to offer customers a wide variety of sporting items – as well as camping and fishing gear – to make my store a one-stop shop."



1 LAWN & GARDEN The lawn and garden department uses visuals to promote customer interaction, helping boost both inspiration and purchases. The new, nature-inspired skins make product displays pop.

2 BATH & PLUMBING To help DIY enthusiasts easily find what they need for a small home improvement project like updating a bathroom, the bath and plumbing department assortments are coordinated by brand, finish and application.

5 PAINT A centrally located paint department attracts, engages and inspires customers. With an overall soft look and warm hues, the paint center is designed to inspire shoppers and engage DIY enthusiasts.

6 POWER TOOLS True Value's great selection of tools is available in "plug and play" assortments. This allows retailers to pick and choose the right brands for their local markets and meet customer needs.

3 DECORATIVE HARDWARE From traditional styles and finishes to designer-influenced merchandise, the decorative hardware department carries products that will satisfy almost any customer.

4 FASTENERS By displaying the full depth and breadth of styles and brands, shelf-level instructional signage easily guides shoppers to the fasteners they want. This organized area provides the nuts and bolts for any project, large or small.

7 LIGHTING The lighting department features both decorative and non-decorative lighting fixtures in a modern display, which can be customized based on local customer demographics.

8 SEASONAL Seasonal areas make the store feel fresh and new throughout the year. As an "inspiration point," they are designed to provoke customer creativity and enhance the shopping experience.



Cindy and Bill Johnson, Johnson's True Value, Groton, Conn.

ATTAINABILITY No two True Value stores or retailers are exactly alike. Destination True Value offers a variety of adoption options and financial assistance. Whether re-merchandising, remodeling or opening a new store, retailers can focus on changes that impact their customers' overall shopping experience. According to Bill Johnson, Johnson's True Value, Groton, Conn., "In six weeks and with no major hiccups along the way, True Value helped remodel our existing location into what's now a small project destination. From start to finish, the field team guided us through every step of the process."

GROWING OUR BUSINESS AND ASSOCIATES

When you grow, we all grow. It's that simple. At True Value, profitable retail growth drives the entire organization and is what we help our members achieve within their businesses. We're committed to helping our members grow their bottom line. Over the last year, True Value reduced the cost of goods and services while maintaining strong service levels and an acceptable patronage dividend.

One successful program is supply chain optimization, which helps the co-op drive increased sales, turnover and fill rates through more effective inventory management. With efficiencies from supply chain optimization, True Value is working to decrease distribution and transportation expenses, improve its inventory capacity and forge stronger supplier relationships to ensure retailers have the right products at the right time.

Whether it's stronger marketing plans, adding top national brands or developing a new retail format to attract and retain customers, True Value keeps its eye on increasing retailers' share of the customer's wallet.

However, growing sales is only part of the equation. Increasing True Value's retail footprint involves adding profitable selling space by helping members expand or remodel, as well as providing guidance and support to make opening new stores possible. In fall 2007 the co-op introduced loan packages and a variety of flexible plans to make square footage-related growth attainable.

Now entering the second year of its three-year commitment to grow our retail square footage, True Value's goal is to open 40 new stores and expand another 20 stores in 2008. This adds up to nearly one-half-million square feet of retail space and more than \$60 million in retail sales. The co-op also aims to incorporate various elements of Destination True Value into more than 1,000 retail locations across the country by 2010.

Behind every profitable and growing organization is a well-trained and knowledgeable associate base, and True Value is no exception.

Our people are True Value's greatest asset. They're at the core of our brand and exemplify what the True Value name is all about. As the co-op continues to grow, we must focus on attracting, retaining and training the best and brightest in our industry.

The customer service that our members provide to their shoppers is what differentiates the True Value brand. In fact, True Value retailers were recently recognized by *BusinessWeek* as a "2008 Customer Service Champ," a ranking of the best-in-class companies based on data from consumer researcher J.D. Power & Associates.

The associate team continues its singular focus on serving members to help them grow and prosper. Whether at headquarters, an RDC, or driving a truck, co-op associates channel their energy and commitment to help retailers provide the best product at the best possible price within the best possible store environment to customers. This year, the co-op continued focusing on attracting top talent by introducing a college-recruitment program to find top inventory planners for our supply chain organization.

Ongoing, comprehensive training across departments and settings keeps employees on the cutting edge of industry trends, technology and best practices. True Value University's member and associate interactive professional development portal, the Learning Resource Center, continued to grow and improve over the past year. The team identified key training needs across the co-op and added an "HR Toolkit" that guides members through developing an effective compensation plan – from writing thorough job descriptions to establishing pay levels and pricing each position appropriately.

TOM TOTH, Prescott True Value, Prescott, Ariz.

Prescott True Value knows precisely what women want. By focusing on retail fundamentals like having a well-lit, clean store stocked with the right merchandise and a staff that offers personal attention, the store gets women in the door and coming back for more. Some of Prescott's core categories also play a significant role in attracting and building a loyal female shopper base.

"Our paint department is well done and our trained staff offers color matching advice, answers questions and provides customers step-by-step guidance," says Tom Toth of Prescott True Value, Prescott, Ariz. (pictured below). "We also have very extensive housewares and lawn and garden sections that appeal to women."

Because first impressions count, the housewares section is highly visible from the store entrance. According to Toth, a woman's initial visit is often with her husband – but once she realizes how many products attract her, she'll be back. Prescott True Value also plans to expand and remodel its lawn and garden area soon as part of its transition to reflect the direction of Destination True Value.



True Value
UNIVERSITY

True Value University's Learning Resource Center boasted more than 4,000 attendees in 2007 – an impressive 23 percent increase from 2006, its inaugural year. The growth proves these training tools continue to be an important asset to members.

"TO DIFFERENTIATE FROM OUR LOCATION THAT SERVES A CONTRACTOR BASE, WE BUILT OUR SECOND STORE USING THE *DESTINATION TRUE VALUE* FORMAT. THE STORE ENVIRONMENT, LAYOUT AND ASSORTMENTS HELPED US EXPAND AND GROW OUR CUSTOMER BASE, WHICH NOW INCLUDES MORE FEMALE SHOPPERS."

– Keith Voisin, St. Charles True Value, Houma, La.

FROM L-R: Doug Gregory, Keith Voisin, David Vice, Greg Landry



BUILDING STRONGER COMMUNITIES

Doing “good” is good for business. Hand in hand with winning at retail is giving back to the communities we serve. Civic involvement is fundamental to the way we do business. True Value takes pride in demonstrating that we stand for a greater purpose and can serve as a catalyst for change. Store by store, True Value members strive to identify the needs within their local communities.

As independent retailers, our members are empowered to do what they can to enhance their surrounding neighborhood. True Value’s Southwest Lumber in Yuma, Ariz., is a shining example.

This past year, True Value’s Southwest Lumber sponsored a project to build the largest children’s playground in its hometown of Yuma. The store donated lumber, building supplies, screws and tarps to the project. But the real nuts and bolts of the project were the store associates who volunteered more than 200 hours to complete the playground.

“The project was more than a simple playground build – it’s the largest playground in the city,” said store general manager Dick Miner. “The new play space is symbolic of our community uniting to build a positive, safe place for local children and families.”

Like our retailers, the co-op looks to its surrounding community to inform the direction of its charitable giving. Building on our members’ philanthropic efforts, the co-op’s 2007 United Way annual campaign secured record-breaking participation numbers. Co-op participation was up 42 percent. Overall, the campaign raised nearly \$350,000 with the co-op match. The United Way directs these funds to address specific needs in the community, including early education, domestic violence and homelessness.

True to fashion, our vendors also contribute. Through the True Value Charity Golf Classic, these retail partners each year raise much-needed funds for the Cotter Boys and Girls Club of Chicago. The 2007 golf outing and auction raised more than \$600,000 in funds that will help at-risk Chicago-area youth.

Now in its eighth year, True Value continues to award scholarships to college-bound children of members and associates. In 2007, the program awarded 85 scholarships for a total of \$86,000 donated in scholarship funds.

“With the scholarship, the co-op has helped my daughter as she starts on a course to a great future,” said Brad Moss, Moss True Value Hardware, Taylor, Texas. “This scholarship program shows that True Value realizes the importance of an education and supports our children and families.”

Looking forward, True Value plans to further demonstrate its commitment to the community by aligning its philanthropic efforts under a signature platform in 2008. The platform will reflect True Value’s business goals, build goodwill for the co-op and its members, and continue to positively impact the communities that our retailers serve.



ZIMMERMANN FAMILY, Zimmermann True Value, Buffalo Grove, Ill.

Zimmermann True Value embodies the spirit that's deeply rooted in community retailing. The store recently celebrated its 30th anniversary in Buffalo Grove, Ill., and the Zimmermann family (pictured above) was honored with the 2007 Golden Bison Award from the local village board in recognition of the members' contributions to the community. The award is given to businesses that go "above and beyond" normal day-to-day operations.

The Zimmermann family believes that providing superior customer service includes being involved in local initiatives. This legacy of service, begun by store owner George Zimmermann, Sr. and his spouse Carole, was instilled in his children, Kurt Zimmermann and Cheryl Shephard, who now run the store.

As a regular contributor to the community, the Zimmermanns participate in numerous activities, including the Buffaloes on Parade and Buffalo Grove Days. In addition, proceeds from the store's 30th anniversary event were donated to the Elliott Cellini Fund, benefiting a local high school student recovering from a serious car accident.



"TRUE VALUE'S CONTRIBUTION TO THE COTTER BOYS AND GIRLS CLUB HAS A DEEP AND LASTING IMPACT ON OUR KIDS AND THEIR FAMILIES. WE COULDN'T PROVIDE OUR SERVICES – FROM TUTORING TO FAMILY INTERVENTION – WITHOUT YOUR SUPPORT."

– Jim Pottinger, Executive Director, Cotter Boys and Girls Club



As the dawn breaks on the co-op's 60th year in business, we're moving full speed on the road to growth. Like our retailers, True Value is committed to delivering superior customer service. With a strong brand and locations that strive to be "the best hardware store in town," True Value will continue to hold a solid position in the communities we serve and the hardware industry for years to come. As we improve, build and grow by working together, True Value is gaining strong momentum for the journey ahead.





BOARD OF DIRECTORS (PICTURED L-R)

Charles Welch, South Royalton, Vt.^{1,7*}
 Brent Burger, Oakland, Maine^{1,8}
 Thomas Hanemann, Memphis, Tenn.^{2,6}
 Brian Webb, Neenah, Wis.^{1,4,9}
 Lyle Heidemann, Crystal Lake, Ill.^{3,9}
 Lawrence Zigerelli, New York, N.Y.²

Richard George, Elmhurst, Ill.^{2,5,7,9}
 Cheryl Bachelder, Midland, Mich.^{2,8}
 Kenneth Niefeld, Annapolis, Md.^{1,6,7}
 Michael Glode, Saratoga, Wyo.^{1,8*}
 David Schwartz, Highland Park, Ill.^{2,6*}

Director Designations 2007
 1. Store Owner
 2. Outside Director
 3. Chief Executive Officer
 4. Chairman of the Board
 5. Vice Chairman of the Board

Board Committees 2007
 6. Audit Committee
 7. Compensation Committee
 8. Corporate Governance Committee
 9. Executive Committee
 * Committee Chair



CORPORATE OFFICERS (PICTURED L-R)

Steve Mahurin, Senior Vice President and Chief Merchandising Officer
 Dave Shaddock, Senior Vice President and Chief Financial Officer
 Jon Johnson, Vice President, Retail Finance

Lyle Heidemann, President and Chief Executive Officer
 Carol Wentworth, Vice President, Marketing
 Cathy Anderson, Senior Vice President, Human Resources and General Counsel

Fred Kirst, Vice President, Retail and Specialty Businesses
 Don Deegan, Vice President, Corporate Controller
 Steve Poplawski, Senior Vice President, Logistics and Supply Chain Management

Leslie Weber, Senior Vice President and Chief Information Officer
 Barbara Wagner, Vice President and Treasurer
 Not Pictured:
 Mark Flowers, Vice President, Retail Growth



True Value
— COMPANY —

8600 W. Bryn Mawr Ave. | Chicago, IL 60631-3505 | 773.695.5000

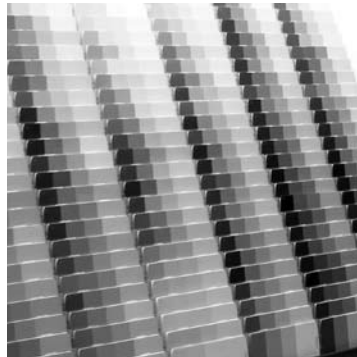
www.truevaluecompany.com

© 2008 True Value Company



True Value[®]

START RIGHT. START HERE.SM



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(\$ in thousands)

OVERVIEW

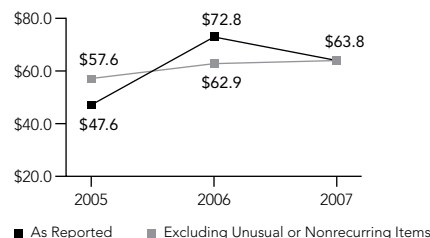
In 2007, True Value Company ("True Value") passed a significant milestone in achieving its mission "to be a world-class wholesaler with a strong retail focus, growing profitably." True Value launched Destination True Value ("DTV") at its fall market in October. DTV is True Value's first complete retail store model. It encompasses not only interior and exterior signage and décor, but complete merchandise assortments for small, medium and large format stores. DTV provides the membership with very clear direction for an updated, on-trend, relevant, and both male- and female-friendly hardware store. DTV, in conjunction with company offered financial incentives launched in 2006, creates True Value's growth platform for the future. This strategy is designed to reverse member attrition and to increase the productive retail space of member stores. Management launched the multi-year retail growth program to provide financial incentives for opening additional stores, or expansion or remodeling of existing stores. These financial incentives obligate the applicable members to adhere to certain retail standards, including minimum retail square footage per store.

Over the past several years, with the exception of 2007, True Value's Net revenue growth has primarily resulted from increases in comparable store product sales to members ("Comp Store Sales"). Primary drivers of Comp Store Sales increases include new products and assortments, and the effects of vendor price increases passed on to the membership. These increases were partially offset by declines from net member attrition. In 2007, Comp Store Sales continued to grow; however, the revenue impact of net member attrition more than offset the Comp Store Sales increase. In 2008, management expects to decrease the level of revenue reduction from net member attrition by opening more new stores and completing more store expansions and remodels through growth incentives and DTV. However, given the expected economic environment, comp store sales growth, if any, will be modest in 2008.

In 2005 and 2006, Net margin was skewed by several unusual or nonrecurring items. In 2005, True Value recorded an \$18,200 arbitration provision related to the E&Y matter (see Note 8, "Commitments and Contingencies – Claims Against Ernst & Young LLP," to the Consolidated Financial Statements) and a net gain of \$8,200 from the sales of a manufacturing facility and a distribution facility (see Note 13, "Asset Sales" to the Consolidated Financial Statements). In 2006, True Value recorded \$5,745 in reductions to arbitration and legal reserves, primarily due to changes related to the E&Y matter, and \$4,166 in one-time net gains from changes in various employee benefit plans, primarily the freezing of the qualified pension plan (see Note 11, "Benefit

Plans" to the Consolidated Financial Statements). The following illustrates Net margin results for the last three years, as reported, and excluding the above unusual items.

NET MARGIN (\$ in millions)

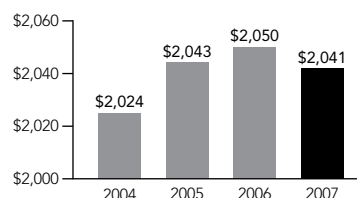


After accounting for the net impact of the unusual or nonrecurring items, Net margin has increased modestly over the last two years.

Management expects modest Net revenue growth in 2008 and a slight decline in Net margin due to additional investments in the business and further fee reductions to members that are anticipated to more than offset efficiency improvements in the operations of the business.

Management utilizes a variety of key performance measures to monitor the financial health and performance of True Value's business. These measures are Comp Store Sales and net member attrition (two drivers of Net revenue), gross margin percentage, operational/interest expense and debt levels.

NET REVENUE (\$ in millions)



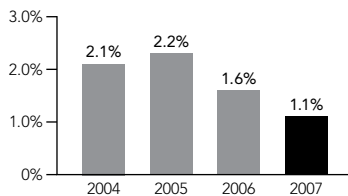
In each of the last four years, True Value has experienced an increase in Comp Store Sales. Revenue from net member attrition experienced a decline, which partially offset the increase in Comp Store Sales except for 2007, when the decline in revenue from net member attrition exceeded the increase in Comp Store Sales. This was in part due to a change in True Value's long-term growth plan to focus primarily on increasing the number of stores with at least 8,500 square feet of retail space by adding new stores or expanding existing stores. Management

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

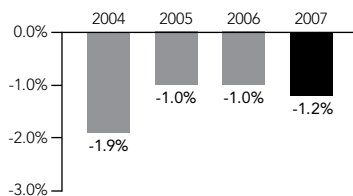
(\$ in thousands)

believes this will help improve the consistency of consumers' in-store experience and associated brand value. Management expects a significant increase in the revenue from new store openings in 2008 based on the backlog of new stores in process at the end of 2007. The following charts illustrate the recent trends of these two elements of product revenue performance.

% CHANGE IN COMP STORE PRODUCT SALES

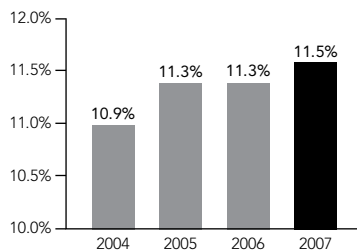


% REVENUE DECLINE FROM NET MEMBER ATTRITION



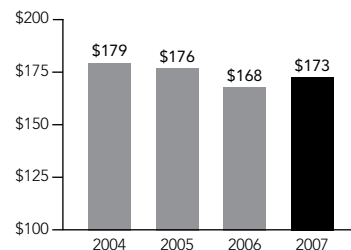
In regard to the level of patronage from True Value members in 2007, approximately one quarter of the stores accounted for less than 5% of Net revenue. This relationship has been fairly consistent over the last several years. If True Value were to experience a significant level of attrition in this quartile of current members, the financial impact would be insignificant.

GROSS MARGIN %



A key driver of True Value's profitability is its overall Gross margin percentage. The Gross margin percentage has steadily improved since 2004 and is attributable to the net effect of vendor line reviews for hardware products. Vendor line reviews result in improved product assortment, enhanced wholesale and retail pricing, increased product sourcing from China and the continued shifting in the mix of product shipped to the members from low gross margin vendor direct sales to higher gross margin sales through True Value's distribution network.

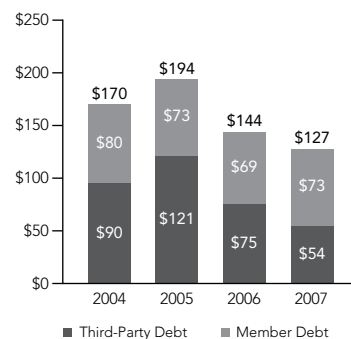
OPERATING AND INTEREST EXPENSES (\$ in millions)



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

A key focus of management is to continue to reduce True Value's cost structure. Management's actions have included staffing reductions, debt refinancing and logistics and manufacturing efficiency improvements. The efficiency improvements made in 2007 were more than offset by inflation and the investments True Value made in its business to establish the growth platform for the future. True Value management estimates stable expense levels in 2008 resulting from further expense reduction, offset by incremental expense for development of core information technology systems and retail standards initiatives.

TOTAL YEAR-END DEBT (\$ in millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(\$ in thousands)

Debt, shown on the previous page, includes all third-party debt and all subordinated member debt. With the exception of 2005, management has reduced True Value's debt level each year since 1998. In 2005, total debt increased over the prior year primarily due to an increase in inventory in order to improve seasonal and promotional product fill rates and for the establishment of two China warehouse operations to handle increased importing activities. At the end of 2007, member debt was larger than all third-party debt for the first time since 1996.

OPERATIONS

True Value's primary source of revenue is derived from the sale of hardware, paint and paint-related products, and general merchandise to member stores. These revenues result from shipments that originate from True Value's distribution facilities, as well as from shipments that go direct from True Value's vendors to member stores. In addition, True Value realizes revenue for services provided to members primarily related to 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, and costs related to advertising and other services. Selling, general and administrative ("SG&A") costs include headquarter and field personnel expenses, as well as marketing and information technology costs.

The success of True Value is dependent upon continued support from its members 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 members 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 2007 COMPARED TO 2006

Net Revenue

A reconciliation of Net revenue between 2007 and 2006 follows:

(\$ in thousands)	Net Revenue	% of 2006 Net Revenue
2006 Results	\$2,049,976	100.0%
<i>Comp Store Sales:</i>		
Warehouse revenue	56,954	2.8%
Vendor-direct revenue	(20,890)	(1.0%)
Paint manufacturing revenue	(16,419)	(0.8%)
Net Comp Store Sales	19,645	1.0%
<i>Change in participating members:</i>		
<i>Terminated members:</i>		
Warehouse revenue	(34,627)	(1.7%)
Vendor-direct revenue	(12,836)	(0.6%)
Paint manufacturing revenue	(2,622)	(0.1%)
Net terminated members	(50,085)	(2.4%)
<i>New members:</i>		
Warehouse revenue	17,280	0.8%
Vendor-direct revenue	8,657	0.4%
Paint manufacturing revenue	493	0.0%
Net new members	26,430	1.2%
Net change in participating members	(23,655)	(1.2%)
<i>Other revenue</i>	<i>(5,364)</i>	<i>(0.3%)</i>
Total change	(9,374)	(0.5%)
2007 Results	\$2,040,602	99.5%

Net revenue for the year ended December 29, 2007 totaled \$2,040,602, a decline of \$9,374, or 0.5%, compared to last year. The reduction in net revenue was predominately due to the continued erosion of sales in the change in participating members' category. Net revenue also decreased in the other revenue category as a result of higher new assortment incentives and free freight on certain product shipments. These declines were partially offset by increased Comp Store Sales that were favorably impacted by sales growth in products sold through True Value's distribution network, particularly in the seasonal and lawn & garden products categories.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(\$ in thousands)

Gross margin	2007	2006	Gross Margin Increase
For the Year Ended	\$234,417	\$232,611	\$1,806
Percent to Net Revenue	11.5%	11.3%	

Gross margin for the year ended December 29, 2007, increased by \$1,806, or 0.8%, over the prior year. The increase in gross margin was driven by Comp Store Sales growth in products sold through True Value's distribution network and improved returns on liquidated sales of excess inventory. Partially offsetting these gross margin increases were the continued erosion of warehouse sales from the change in participating members, the impact from new business model policy changes announced at the 2006 fall market and higher freight-in expense due to increased importing. The business policy changes, which reduced the members' cost of doing business with True Value, include full credit on Policy A returned goods, free freight on promotional orders placed in the early order windows and co-op reimbursement for True Value produced circulars.

Logistics and manufacturing expenses	2007	2006	\$ Expense Increase
For the Year Ended	\$61,350	\$58,805	\$2,545
Percent to Net Revenue	3.0%	2.9%	

Logistics and manufacturing expenses increased by \$2,545, or 4.3%, as compared to the prior year. The increase in expense was primarily due to increased labor expense resulting from higher volumes sold through True Value's distribution network.

Selling, general and administrative expenses	2007	2006	\$ Expense Increase
For the Year Ended	\$98,729	\$94,527	\$4,202
Percent to Net Revenue	4.8%	4.6%	

SG&A expenses increased by \$4,202, or 4.4%, as compared to the prior year. SG&A expenses increased primarily due to expenses related to developing and marketing the DTV model store of \$2,849, increased labor expense of \$1,928 and lease expense of \$773. Partially offsetting these increases were lower outside legal services of \$945. The 2006 curtailment gain that resulted from True Value freezing its two noncontributory defined benefit retirement plans for its nonunion participants was matched by the retirement benefit expense savings realized in 2007 from freezing the two retirement plans in 2006.

Arbitration and litigation provisions/(benefits)	2007	2006	Expense Increase
For the Year Ended	\$600	\$(5,745)	\$6,345
Percent to Net Revenue	0.0%	(0.3%)	

The change in arbitration and litigation reserves of \$6,345 was primarily due to the partial reversals of prior years' reserves of \$6,275 which was predominately related to the arbitration with Ernst & Young LLP.

(Gain)/loss on sale of assets	2007	2006	Expense Increase
For the Year Ended	\$173	\$(1,090)	\$(1,263)
Percent to Net Revenue	0.0%	(0.1%)	

Gain/loss on sale of assets was expense of \$173 for 2007 compared to income of \$1,090 in 2006. The 2006 gain on sale of assets was mainly related to the sale of tractors and trailers.

Other income, net	2007	2006	\$ Decrease
For the Year Ended	\$(2,697)	\$(1,310)	\$(1,387)
Percent to Net Revenue	(0.1%)	(0.1%)	

Other income, net increased by \$1,387, or 105.9%, as compared to the prior year. The lower income in 2006 was due to costs associated with True Value terminating its asset-based revolving credit facility and obtaining a new senior secured revolving credit facility. Upon terminating the asset-based credit facility True Value wrote off related bank fees of \$1,346 (see Note 4, "Debt Arrangements – Bank Facility," to the Consolidated Financial Statements).

Interest expense	2007	2006	\$ Expense (Decrease)
Third-parties	\$8,081	\$10,141	\$(2,060)
Percent to Net Revenue	0.4%	0.5%	

Third-party interest expense decreased by \$2,060, or 20.3%, as compared to last year. This decrease in expense was due to lower interest rates and a lower average debt level. True Value's daily outstanding revolving credit facility borrowings were approximately \$8,300 lower compared to 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(\$ in thousands)

Net margin	2007	2006	\$ Net Margin Decrease
For the Year Ended	\$63,767	\$72,779	\$9,012
Percent to Net Revenue	3.1%	3.6%	

The 2007 Net margin of \$63,767 decreased from the 2006 Net margin of \$72,779. The primary reason for the \$9,012 decrease in 2007 was the net favorable adjustment made to the arbitration and other litigation reserves of \$5,745 and \$4,166 in one-time net gains from changes in various employee benefit plans, primarily the freezing of the qualified pension plan in 2006, which did not reoccur in 2007.

RESULTS OF OPERATIONS FOR 2006 COMPARED TO 2005

Net Revenue

A reconciliation of Net revenue between 2006 and 2005 follows:

(\$ in thousands)	Net Revenue	% of 2005 Net Revenue
2005 Results	\$2,043,034	100.0%
<i>Comp Store Sales:</i>		
Warehouse revenue	26,286	1.3%
Vendor-direct revenue	3,353	0.2%
Paint manufacturing revenue	(541)	(0.1%)
Net Comp Store Sales	29,098	1.4%
<i>Change in participating members:</i>		
<i>Terminated members:</i>		
Warehouse revenue	(37,101)	(1.8%)
Vendor-direct revenue	(15,647)	(0.8%)
Paint manufacturing revenue	(3,023)	(0.1%)
Net terminated members	(55,771)	(2.7%)
<i>New members:</i>		
Warehouse revenue	21,250	1.0%
Vendor-direct revenue	12,613	0.6%
Paint manufacturing revenue	983	0.1%
Net new members	34,846	1.7%
Net change in participating members	(20,925)	(1.0%)
Other revenue	(1,231)	(0.1%)
Total change	6,942	0.3%
2006 Results	\$2,049,976	100.3%

Net revenue for the year ended December 30, 2006 totaled \$2,049,976, which was up \$6,942, or 0.3%, compared to the prior year. True Value's Comp Store Sales increased \$29,098, or 1.4%. Comp Store Sales were favorably impacted by inflation and commodity price increases. In addition, the Comp Store Sales category was favorably impacted by early spring weather in much of the country. Partially offsetting the increase in Comp Store Sales was a revenue reduction of \$20,925, or 1.0%, in the net change in participating members' category.

Gross margin	2006	2005	\$ Gross Margin Increase
For the Year Ended	\$232,611	\$230,479	\$2,132
Percent to Net Revenue	11.3%	11.3%	

Gross margin for the year ended December 30, 2006, increased by \$2,132, or 0.9%, over the prior year. The increase in Gross margin was driven by favorable product margins of \$1,559 for hardware products and \$2,355 for paint products, partially offset by changes in other sourcing activities. The hardware product margin was favorable to last year predominately due to favorable net hardware acquisition cost related to the line reviews. In addition, the hardware product margin was favorable due to True Value passing on inflationary price increases to the membership in a timelier manner compared to last year. In 2005, True Value absorbed a significant number of inflationary merchandise acquisition cost increases. Paint product margins increased year-over-year primarily due to sales price increases in excess of raw material cost increases, along with lower production costs and the 2005 costs related to the initial outsourcing of the brush manufacturing line and the Blackhawk facility closure that did not reoccur in 2006.

Logistics and manufacturing expenses	2006	2005	\$ Expense (Decrease)
For the Year Ended	\$58,805	\$58,863	\$(58)
Percent to Net Revenue	2.9%	2.9%	

Logistics and manufacturing expenses were comparable to the prior year as favorability in logistics was predominately offset by a slight increase in manufacturing expenses. The favorability in logistics was due to efficiencies in the distribution network partially offset by normal inflationary increases while the increase in manufacturing expenses was primarily related to severance cost.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(\$ in thousands)

Selling, general and administrative expenses	2006	2005	\$ Expense (Decrease)
For the Year Ended	\$94,527	\$102,527	\$(8,000)
Percent to Net Revenue	4.6%	5.0%	

SG&A expenses decreased primarily due to lower labor expense of \$2,679. The lower labor expense consisted of favorable pension expense of \$4,101 mainly as a result of True Value freezing its pension plan and lower severance charges of \$2,651 partially offset by higher incentive expense of \$3,915 due to higher goal attainment in 2006 compared to 2005. In addition, legal costs principally related to the prior-year E&Y arbitration were lower by \$2,525 and development expenses were lower by \$2,658. The development expense was favorable mainly due to lower store merchandising program expenses related to paint and tool shops, lower retail system software expense and lower new store design layout, signage and fixture costs.

Arbitration and litigation provisions/(benefits)	2006	2005	\$ Expense (Decrease)
For the Year Ended	\$(5,745)	\$18,200	\$(23,945)
Percent to Net Revenue	(0.3%)	0.9%	

On April 3, 2006 the arbitration panel in the E&Y matter issued its final award. The panel ordered True Value to pay to E&Y, attorneys' fees and expenses totaling \$12,191 and reimbursement of American Arbitration Association fees and expenses totaling \$384. As a result, True Value reduced its initial 2005 reserve of \$18,200 that was recorded in the third quarter of 2005 based upon the arbitration panel's original decision, and recorded an adjustment to the prior year arbitration reserve of \$5,625, in the quarterly period ended April 1, 2006. In the third quarter 2006, E&Y filed a motion seeking interest on the final award. On October 27, 2006, the trial court granted E&Y's motion and ordered True Value to pay \$530 in interest.

On June 2, 2006, the Kentucky Appellate Court in the Flegles action, after having heard arguments from both sides, reversed the judgment of the Kentucky Trial Court. Accordingly, True Value reversed its prior years' litigation reserve and recognized \$650 of income in the quarterly period ended July 1, 2006.

(Gain)/loss on sale of assets	2006	2005	\$ Decrease
For the Year Ended	\$(1,090)	\$(8,333)	\$(7,243)
Percent to Net Revenue	(0.1%)	(0.4%)	

Gain on sale of assets decreased \$7,243, or 86.9%, as compared to the prior year. The 2006 gain on sale of assets was mainly related to the sale of tractors and trailers. The 2005 gain on sale of assets primarily included a \$9,080 gain on sale of the Chicago, Illinois, manufacturing facility partially offset by a \$942 impairment charge on the East Butler, Pennsylvania, facility.

Other income, net	2006	2005	\$ Decrease
For the Year Ended	\$(1,310)	\$(2,597)	\$(1,287)
Percent to Net Revenue	(0.1%)	(0.1%)	

Other income, net decreased by \$1,287, or 49.6%, as compared to the prior year. The lower income in 2006 was due to True Value terminating its asset-based revolving credit facility and obtaining a new senior secured revolving credit facility. Upon terminating the asset-based credit facility True Value wrote off related bank fees of \$1,346 (see Note 4, "Debt Arrangements—Bank Facility," to the Consolidated Financial Statements).

Interest expense	2006	2005	\$ Expense (Decrease)/ Increase
Member	\$ 4,450	\$5,507	\$(1,057)
Percent to Net Revenue	0.2%	0.3%	
Third-parties	\$10,141	\$8,706	\$ 1,435
Percent to Net Revenue	0.5%	0.4%	

Member interest expense decreased by \$1,057, or 19.2%, as compared to the prior year. This decrease in expense was primarily due to lower interest rates and a lower average debt level.

Third-party interest expense increased by \$1,435, or 16.5%, as compared to the prior year. This increase in expense was primarily due to higher interest rates partially offset by a lower average debt level as a result of decreased inventory levels.

Net margin	2006	2005	\$ Net Margin Increase
For the Year Ended	\$72,779	\$47,555	\$25,224
Percent to Net Revenue	3.6%	2.3%	

The 2006 Net margin of \$72,779 increased from the 2005 Net margin of \$47,555. The primary reasons for the \$25,224 increase in 2006 were the 2005 arbitration provision of \$18,200 that did not reoccur in 2006 along with the net favorable adjustments made to the arbitration and other litigation reserves of \$5,745 in 2006. In addition, the 2006 Net margin was also favorably

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(\$ in thousands)

impacted by higher product margins, the favorable impact from freezing the pension plan and lower legal cost related to the E&Y arbitration. Partially offsetting these favorable items was the net decrease from the 2005 gain on sale of assets and the 2006 bank fee write off, as discussed above.

LIQUIDITY AND CAPITAL RESOURCES

True Value generated cash of \$66,525 and \$85,503 from operating activities for 2007 and 2006, respectively, while it used cash for operating activities in 2005 of \$9,055. The decrease in cash generated from operating activities in 2007 compared to 2006 was predominately due to increased accounts receivables of \$16,555 as a result of higher December sales and the timing of the fall market. The fall market was held in late October 2007 compared to mid September 2006 and therefore moved extended invoice terms on certain 2007 market sales into 2008. Inventory also increased in 2007 compared to 2006 by \$22,513 in order to improve fill rates and for products ordered at the later fall market for shipment in January 2008. These increased usages of cash were partially funded by an increase in accounts payable of \$22,446. The change in cash generated from operating activities in 2006 from cash used for operating activities in 2005 was primarily due to the inventory buildup in 2005 and the subsequent inventory reduction in 2006. The inventory buildup in 2005 was primarily due to increased inventory in order to improve seasonal and promotional product fill rates and new product offerings. In addition, inventory increased with the establishment of two China warehouse operations in the third quarter of 2005 to handle increased importing activities. The 2006 inventory reduction was due, in part, to True Value management's effort to improve inventory productivity while maintaining acceptable product fill rates.

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. The low point for accounts receivable, inventory and accounts payable is at the end of the calendar year. 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 2007 and 2006 of \$17,353 and \$9,245, respectively, while it generated cash from investing activities in 2005 in the amount of \$7,455. Investing activities include capital expenditures and proceeds from sales

of properties. The reason 2005 generated cash from investing activities was predominately due to proceeds of \$16,313 from the sale of two properties in 2005, which was related to the sale of the Chicago, Illinois, oil-based paint manufacturing facility on December 28, 2005, and the sale of the East Butler, Pennsylvania, warehouse and office facility on April 20, 2005.

The net excess cash generated from operating and investing activities in 2007 and 2006 was used primarily for financing activities, which used cash of \$50,057 and \$80,205 for 2007 and 2006, respectively. In particular, True Value applied the cash provided by operating and investing activities to reducing its debt in both years. In addition, True Value used cash for payment of the patronage dividend and the redemption of Class A and Class B common stock.

True Value generated cash from its financing activities in 2005 of \$4,386. The cash was generated from proceeds from the mortgage transaction on its Manchester, New Hampshire, distribution center in the amount of \$21,600 (see Note 4, "Debt Arrangements – Mortgage Transaction," to the Consolidated Financial Statements). These proceeds were used to fund the additional amount of True Value's operating activities that were not covered by its investing activities, as well as a reduction of debt and payment of the patronage dividend.

True Value's net working capital at December 29, 2007, December 30, 2006 and December 31, 2005, was \$147,846, \$123,993 and \$139,769, respectively. The current ratio at December 29, 2007, December 30, 2006 and December 31, 2005, was 1.37, 1.31 and 1.31, respectively. The increase in both True Value's net working capital and current ratio in 2007 compared to 2006 was primarily due to its revolving credit facility being classified entirely as long-term debt as a result of lower total 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 and debt obligations due to be repaid in 2008. The Bank Facility should provide sufficient liquidity for future needs until it expires in 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(\$ in thousands)

informed estimates and judgments of management with due consideration given to materiality. Accordingly, actual results could differ from those estimates. The following represents those critical accounting policies where materially different amounts would be reported under different conditions or using different assumptions.

- *Accounts and notes receivable, net of allowance for doubtful accounts* – At December 29, 2007, accounts receivable, net of \$1,094 in allowance for doubtful accounts, was \$222,618. True Value determined the allowance based upon its evaluation of known requirements, aging of receivables, historical experience, the current economic conditions and the ability to set off against unpaid receivables, amounts due to members for stock, notes, interest and declared and unpaid dividends. While True Value believes it has appropriately considered known or expected outcomes, its members' 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 contraction in the economy, loss of memberships or intense competition from chain stores, discount stores, home centers and warehouse stores.

Included in the accounts receivable amounts at December 29, 2007, was \$31,122 for receivables from True Value Vendors, primarily related to unpaid amounts for annual rebate programs which are based on various contracted rebate percentages applied to purchases made from Vendors during the fiscal year. Besides the economic risks previously noted, Vendor receivables include risks associated with estimates of rebates made at year end related to final purchases and invoice data, that may differ from actual computed rebates.

- *Inventories, net of valuation reserves* – At December 29, 2007, inventories, net of \$14,618 in valuation reserves, were \$313,934, and reflect the reductions from cost in order 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) a significant contraction in the current economic climate, resulting in retailers being unwilling to accept deliveries of advance orders placed, 2) True Value electing not to ship inventories to retailers who pose a greater credit risk than appropriate or 3) an unanticipated decline in retail outlets or a significant contraction in True Value's warehouse stock replenishment business for selected product categories. 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* – At December 29, 2007, the accompanying Consolidated Balance Sheet reflects \$91,474 of goodwill. Goodwill is tested for impairment using a discounted cash flow analysis by each reporting unit (Hardware and Paint manufacturing). This test is completed annually unless significant events necessitate a more frequent test. True Value determined as of December 29, 2007, that no impairment exists. There are inherent uncertainties related to the factors utilized to assess impairment and in management's judgment in applying them to the analysis of goodwill impairment. It is possible that assumptions underlying the impairment analysis will change in such a manner that impairment in value may occur in the future.
- *Deferred tax assets* – At December 29, 2007, the accompanying Consolidated Balance Sheet reflects \$46,625 of deferred tax assets, principally related to net operating loss carryforwards, deferred gain recognition and nonqualified notices of allocation. These deferred tax assets, net of deferred tax liabilities of \$1,997, are offset by a full valuation allowance at December 29, 2007. True Value had approximately \$13,421 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 29, 2007, 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 realized and that a full valuation allowance is required. Deferred tax assets will only be realized to the extent future earnings are retained by True Value and not distributed to members as patronage dividends.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(\$ in thousands)

- Benefit plans* – At December 29, 2007, accruals related to benefit plans were included in Accrued expenses of \$72,993 in the accompanying Consolidated Balance Sheet. True Value works with an actuarial firm in the valuation of benefit obligations. True Value selects certain actuarial assumptions on which to base the calculation of the actuarial valuation of the obligation, such as the discount rate (interest rate used to determine present value of obligations payable in the future), medical cost trend rate, expected return on assets and expected mortality to determine the expected future benefit obligations. The discount rate was based on an analysis of bond rates with terms that have similar duration as the pension liabilities. The medical cost trend rate was based on an analysis of inflation rates and medical inflation rates and the long-term trend for these rates. The expected return on assets was based on an analysis of historical real returns on True Value's portfolio mix over 30-year periods. This analysis produced a range of rates that True Value adjusted for a future inflation factor and the impact of trust fees. True Value used a rate within this range of rates. 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 increase its provision for expenses.

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

	December 29, 2007	December 30, 2006
Measurement Date	12/29/2007	12/30/2006
Weighted average assumptions:		
Discount rate	6.00%	5.75%
Lump sum rate	5.00%	5.50%

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

	December 29, 2007	December 30, 2006	December 31, 2005
Measurement Date	12/30/2006	12/31/2005	12/31/2004
Weighted average assumptions:			
Discount rate	5.75%	5.25%	5.50%
Expected return on assets	8.00%	8.00%	8.00%
Rate of compensation increase	3.50%	3.50%	3.50%

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:

(\$ in thousands)	One Percent Decrease	One Percent Increase
Sensitivity to Discount Rate:		
Projected Benefit Obligation as of 12/29/2007	\$ 6,106	\$(5,653)
2007 Pension expense	5	(6)
2007 Settlement expense	427	(454)
Total 2007 Pension expense	\$ 432	\$(460)

Sensitivity to Expected Return on Assets:		
2007 Expected Return on Assets	\$ (660)	\$ 660

REPORT OF INDEPENDENT AUDITORS

TO THE BOARD OF DIRECTORS AND MEMBERS OF TRUE VALUE COMPANY:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and members' equity present fairly, in all material respects, the financial position of True Value Company and its subsidiaries at December 29, 2007 and December 30, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An

audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 11 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit retirement plans as of December 30, 2006.

PricewaterhouseCoopers LLP

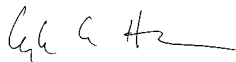
PricewaterhouseCoopers LLP
Chicago, Illinois
March 3, 2008

MANAGEMENT'S CERTIFICATION

We, Lyle G. Heidemann and David A. Shadduck, certify that:

1. We have reviewed this annual report of True Value Company;
2. Based on our knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on our knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of True Value as of, and for, the periods presented in this annual report;
4. We are responsible for establishing and maintaining disclosure controls and procedures for True Value and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to True Value, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of True Value's disclosure controls and procedures and concluded that as of December 29, 2007, True Value's disclosure controls and procedures are effective; and
- c. disclosed in this annual report any change in True Value's internal control over financial reporting that occurred during True Value's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, True Value's internal control over financial reporting;
5. We have disclosed, based on our most recent evaluation, to True Value's auditors and the audit committee of True Value's board of directors:
 - a. all significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect True Value's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in True Value's internal control over financial reporting.

TRUE VALUE COMPANY



Lyle G. Heidemann
*President and
Chief Executive Officer*



David A. Shadduck
*Senior Vice President and
Chief Financial Officer*

Date: March 5, 2008

MANAGEMENT'S REPORT

ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Although True Value is not an SEC registrant, True Value's management has elected to assess the effectiveness of its internal control over financial reporting as of December 29, 2007 and report, based on that assessment, whether True Value's internal controls over financial reporting are effective.

True Value's management is following the guidance under Section 404 of The Sarbanes-Oxley Act of 2002, and as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 that it is responsible for establishing and maintaining adequate internal control over financial reporting. True Value's internal control over reporting is designed to provide reasonable assurance regarding the reliability of True Value's financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

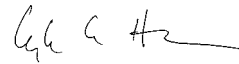
True Value's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the acquisition, disposition and other transactions regarding the assets of True Value, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of True Value are being made only in accordance with authorizations of management and directors of True Value; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of True Value's assets that could have a material effect on the financial statements.

Internal control over financial reporting, because of its inherent limitations, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

True Value's management has assessed the effectiveness of its internal control over financial reporting as of December 29, 2007. In making this assessment, True Value's management used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. True Value's management assessment included documenting, evaluating and testing of the design and operating effectiveness of its internal control over financial reporting. True Value's management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

True Value's management, based on their assessment, has concluded that, as of December 29, 2007, True Value's internal control over financial reporting was effective.

TRUE VALUE COMPANY



Lyle G. Heidemann
*President and
Chief Executive Officer*



David A. Shaddock
*Senior Vice President and
Chief Financial Officer*

Date: March 5, 2008

CONSOLIDATED BALANCE SHEET

(\$ in thousands, except per share information)

	December 29, 2007	December 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,176	\$ 6,061
Accounts and notes receivable, net of allowance for doubtful accounts of \$1,094 and \$1,099	222,618	207,229
Inventories, net of valuation reserves of \$14,618 and \$14,942	313,934	297,846
Prepaid expenses	10,301	11,011
Total current assets	552,029	522,147
Properties, net	70,313	64,863
Goodwill	91,474	91,474
Other assets	6,344	7,286
Total assets	\$720,160	\$685,770
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 239,023	\$ 215,926
Drafts payable	46,211	48,090
Accrued expenses	72,993	73,240
Current maturities of long-term debt, notes and capital lease obligations	28,564	45,185
Patronage dividend payable in cash	17,392	15,713
Total current liabilities	404,183	398,154
Long-term liabilities and deferred credits:		
Long-term debt including notes and capital lease obligations, less current maturities	98,876	99,292
Deferred gain on sale leaseback	38,895	41,681
Other long-term liabilities	26,929	24,385
Redeemable nonqualified Class B nonvoting common stock, \$100 par value; 186,156 and 195,374 shares issued and fully paid	18,616	19,537
Total long-term liabilities and deferred credits	183,316	184,895
Total liabilities and deferred credits	587,499	583,049
Members' equity:		
Redeemable Class A voting common stock, \$100 par value; 750,000 shares authorized; 292,260 and 285,720 shares issued and fully paid; 840 and 20,580 shares issued (net of subscriptions receivable of \$8 and \$310)	29,302	30,320
Redeemable qualified Class B nonvoting common stock and paid-in capital, \$100 par value; 4,000,000 shares authorized; 1,648,661 and 1,429,312 shares issued and fully paid	166,165	144,230
Loss allocation	(4,778)	(7,142)
Deferred patronage	(22,055)	(22,802)
Accumulated deficit	(24,334)	(32,575)
Accumulated other comprehensive loss	(11,639)	(9,310)
Total members' equity	132,661	102,721
Total liabilities and members' equity	\$720,160	\$685,770

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

CONSOLIDATED STATEMENT OF OPERATIONS

(\$ in thousands)

For the Years Ended	December 29, 2007	December 30, 2006	December 31, 2005
Net revenue	\$2,040,602	\$2,049,976	\$2,043,034
Cost of revenue	1,806,184	1,817,365	1,812,555
Gross margin	234,418	232,611	230,479
Operating expenses:			
Logistics and manufacturing expenses	61,350	58,805	58,863
Selling, general and administrative expenses	98,729	94,527	102,527
Arbitration and litigation provisions/(benefits)	600	(5,745)	18,200
(Gain)/loss on sale of assets	173	(1,090)	(8,333)
Other income, net	(2,697)	(1,310)	(2,597)
Operating income	76,263	87,424	61,819
Interest expense to members	4,386	4,450	5,507
Third-party interest expense	8,081	10,141	8,706
Net margin before income taxes	63,796	72,833	47,606
Income tax expense	29	54	51
Net margin	\$ 63,767	\$ 72,779	\$ 47,555

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(\$ in thousands)

For the Years Ended	December 29, 2007	December 30, 2006	December 31, 2005
Operating activities:			
Net margin	\$ 63,767	\$ 72,779	\$ 47,555
Adjustments to reconcile net margin to net cash and cash equivalents from operating activities:			
Depreciation and amortization	15,016	14,291	13,616
Provision to/(reduction of) allowance for doubtful accounts	(85)	103	(143)
Provision for inventory reserves	6,425	12,141	15,052
(Gain)/loss on sale of assets	173	(1,090)	(8,333)
Amortization of deferred gain on sale leaseback	(2,778)	(2,778)	(2,778)
Arbitration and litigation reserves	600	(5,745)	18,200
Write-off of prepaid bank fees	-	1,346	-
Asset impairment charge	-	-	942
Changes in operating assets and liabilities:			
Accounts and notes receivable	(16,555)	19,364	(28,280)
Inventories	(22,513)	24,031	(84,835)
Other current assets	1,019	3,919	(482)
Accounts payable	22,446	(34,541)	18,975
Accrued expenses	(248)	(9,783)	296
Other adjustments, net	(742)	(8,534)	1,160
Net cash and cash equivalents provided by/(used for) operating activities	66,525	85,503	(9,055)
Investing activities:			
Additions to property, plant & equipment	(17,083)	(13,121)	(14,643)
Proceeds from sale of properties	33	3,876	22,098
Other	(303)	-	-
Net cash and cash equivalents provided by/(used for) investing activities	(17,353)	(9,245)	7,455
Financing activities:			
Payment of patronage dividend	(14,843)	(12,384)	(11,939)
Payment of notes, long-term debt and lease obligations	(12,252)	(11,391)	(11,766)
Increase/(decrease) in drafts payable	(1,879)	(8,660)	541
Proceeds from/(payment of) real estate mortgage	(566)	(530)	21,600
Increase/(decrease) in revolving credit facility, net	(18,700)	(47,500)	5,600
Proceeds from sale of Redeemable Class A common stock and subscriptions receivable	1,091	1,553	2,086
Purchase of Class A and Class B common stock	(1,049)	(1,023)	(1,736)
Increase in non-interest-bearing retail growth notes	(1,859)	(270)	-
Net cash and cash equivalents provided by/(used for) financing activities	(50,057)	(80,205)	4,386
Net increase/(decrease) in cash and cash equivalents	(885)	(3,947)	2,786
Cash and cash equivalents at beginning of year	6,061	10,008	7,222
Cash and cash equivalents at end of year	\$ 5,176	\$ 6,061	\$10,008

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

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

(\$ in thousands, except per share information)

	Redeemable Common Stock				Loss Allocation	Deferred Patronage	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Members' Equity	Total Comprehensive Income/(Loss)
	Class A		Class B							
	# of Shares	Amount	# of Shares	Amount						
Balances at and for the year ended December 31, 2004	319,740	\$30,490	1,008,882	\$102,187	\$(19,420)	\$(24,298)	\$(58,860)	\$(1,903)	\$ 28,196	\$43,289
Net margin	–	–	–	–	–	–	47,555	–	47,555	\$47,555
Reclass stock presented for redemptions to liabilities	(20,280)	(2,122)	(58,497)	(5,850)	1,495	–	1,973	–	(4,504)	–
Amortization of deferred patronage	–	–	–	–	–	748	(748)	–	–	–
Minimum pension liability adjustment	–	–	–	–	–	–	–	173	173	173
Patronage dividend	–	–	293,852	29,385	–	–	(43,870)	–	(14,485)	–
Class B stock applied against loss allocation	–	–	(68,374)	(6,837)	6,837	–	–	–	–	–
Class A stock purchases	16,020	2,096	–	–	–	–	–	–	2,096	–
Balances at and for the year ended December 31, 2005	315,480	30,464	1,175,863	118,885	(11,088)	(23,550)	(53,950)	(1,730)	59,031	\$47,728
Net margin	–	–	–	–	–	–	72,779	–	72,779	\$72,779
Reclass stock presented for redemptions to liabilities	(18,540)	(1,697)	(48,770)	(4,877)	669	–	1,418	–	(4,487)	–
Amortization of deferred patronage	–	–	–	–	–	748	(748)	–	–	–
Patronage dividend	–	–	334,991	33,499	–	–	(52,074)	–	(18,575)	–
Class B stock applied against loss allocation	–	–	(32,772)	(3,277)	3,277	–	–	–	–	–
Class A stock purchases	9,360	1,553	–	–	–	–	–	–	1,553	–
Pension liability adjustment: Additional minimum liability arising during the period	–	–	–	–	–	–	–	(9,148)	(9,148)	(9,148)
Adjustments to initially apply FASB statement No. 158	–	–	–	–	–	–	–	1,568	1,568	1,568
Total pension liability adjust	–	–	–	–	–	–	–	(7,580)	(7,580)	(7,580)
Balances at and for the year ended December 30, 2006	306,300	30,320	1,429,312	144,230	(7,142)	(22,802)	(32,575)	(9,310)	102,721	\$65,199
Net margin	–	–	–	–	–	–	63,767	–	63,767	\$63,767
Reclass stock presented for redemptions to liabilities	(21,156)	(2,109)	(67,858)	(6,786)	1,203	–	1,352	–	(6,340)	–
Amortization of deferred patronage	–	–	–	–	–	747	(747)	–	–	–
Patronage dividend	–	–	298,819	29,882	–	–	(56,131)	–	(26,249)	–
Class B stock applied against loss allocation	–	–	(11,612)	(1,161)	1,161	–	–	–	–	–
Class A stock purchases	7,800	1,091	–	–	–	–	–	–	1,091	–
Pension liability adjustment for deferred actuarial loss	–	–	–	–	–	–	–	(2,329)	(2,329)	(2,329)
Balances at and for the year ended December 29, 2007	292,944	\$29,302	1,648,661	\$166,165	\$ (4,778)	\$(22,055)	\$(24,334)	\$(11,639)	\$132,661	\$61,438

Redeemable Class A common stock amounts are net of unpaid subscription amounts of \$8 relating to 840 issued shares at December 29, 2007; \$310 relating to 20,580 issued shares at December 30, 2006; \$1,084 relating to 25,200 issued shares at December 31, 2005; and \$1,484 relating to 22,920 issued shares at December 31, 2004.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

1. DESCRIPTION OF BUSINESS AND ACCOUNTING POLICIES

Principal Business Activity

True Value Company ("True Value") is a member-owned wholesaler cooperative of hardware and related merchandise. True Value also manufactures and sells paint and paint applicators. True Value's goods and services are sold predominately within the United States, primarily to retailers of hardware, industrial distributors, garden centers and rental retailers who have entered into retail agreements with it. True Value also provides to its members value-added services such as marketing, advertising, merchandising and store location and design services.

Consolidation

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

Reporting Year

Beginning in 2006, True Value changed its reporting year from a calendar year to a fiscal year ending the Saturday closest to December 31. Fiscal year 2007 ended on December 29, 2007 and fiscal year 2006 ended on December 30, 2006.

Reclassifications

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 members' equity at the balance sheet dates.

Cash Equivalents

True Value classifies all highly liquid investments with an original maturity of three months or less as 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 receivables and the risks of repayment after applying set-off rights for any payment obligations owed by True Value to the member. The allowance was \$1,094 and \$1,099 as of December 29, 2007 and December 30, 2006, respectively. True Value considers accounts receivable past due if invoices remain unpaid past their due date and writes off uncollectible receivables after exhausting all collection efforts.

Inventories

Inventories are stated at the lower of cost, determined on 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 2007 inventory valuation reserve of \$14,618 decreased by \$324 from the ending 2006 reserve of \$14,942 mainly due to less distressed inventory and lower reserve requirements on overstock inventory. 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 members through a price reduction process and to sell remaining inventory to liquidators. The cost of inventory also includes indirect costs (such as logistics, manufacturing, freight-in and support costs) incurred to bring inventory to its existing location for resale and vendor rebates. These 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 2, "Inventories").

Interest-Free Notes Receivables

True Value has a program to provide interest-free loans to members to open new stores or make store expansions. The loans are for a period of ten years and are generally repaid through the members' non Class B common stock portion of the annual patronage dividend. True Value discounts the loan amount using market rates at the time of the loan. The difference between the face value of the loan and the discounted amount is amortized on a straight-line basis over the loan period. In addition, interest income is imputed and recorded using the effective interest method. At December 29, 2007 True Value had \$2,128 in loans outstanding discounted at an average interest rate of 10.04% and \$1,105 in unamortized discount remaining. At December 30, 2006 True Value had \$270 in loans outstanding discounted at an average interest rate of 10.25% and \$145 in unamortized discount remaining. During 2007 and 2006, \$76 and \$2, respectively, of discount was recognized as a reduction of revenue and \$64 and \$2, respectively, in imputed interest income was recognized.

Properties

Properties are recorded at cost. Depreciation and amortization are computed by using the straight-line method over the following estimated useful lives: buildings and improvements – 10 to 40 years; machinery and warehouse equipment – 7 to 10 years; office and computer equipment and software – 3 to 7 years; transportation equipment – 3 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

Goodwill

Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill is tested for impairment using a discounted cash flow analysis for each reporting unit (Hardware and Paint manufacturing). This test is completed annually unless significant events necessitate a more frequent test. The test completed at December 29, 2007, used a discount rate of 10% and assumed a modest revenue increase in future years. Rates used to discount cash flows are dependent upon interest rates and the cost of capital at a point in time. A 100-basis-point movement in the discount rate did not significantly impact the analysis. In evaluating the recoverability of goodwill, management estimates each reporting unit's fair value. In making this estimate, True Value's management relies on a number of factors including operating results, business plans and present value techniques, to discount anticipated future cash flows. True Value completes its annual impairment assessment at the end of each year and has determined that no impairment existed at December 29, 2007 or December 30, 2006.

At December 29, 2007 and December 30, 2006, Goodwill was comprised of \$78,429 for the hardware segment and \$13,045 for the paint segment.

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 collectibility is reasonably assured. Revenue is not recognized until title and risk of loss have transferred to the customer, which is upon delivery of products. 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. Product revenue on items shipped directly to the member from vendors is recognized at the time the vendors' invoices are received by True Value. Service revenue is comprised of advertising and markets, and transportation which amounted to \$55,306 and \$52,994 for 2007, respectively, \$55,809 and \$55,504 for 2006, respectively, and \$57,047 and \$53,922 for 2005, respectively. Amounts billed to members for advertising are included in net revenue and recognized when the underlying advertisement is run or when the related circulars are dropped. Amounts billed to members for shipping and handling costs are included in net 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 \$26,750, \$28,267 and \$31,999 in 2007, 2006 and 2005, respectively, and are included in Cost of revenue.

Interest Rate Caps

True Value has purchased interest rate caps that limit its risk on \$25,000 of the variable-rate revolving credit facility to a maximum underlying London Interbank Offering Rate ("LIBOR") of 4.5% through August 2008. The three-month LIBOR at December 29, 2007, was approximately 4.7%. This interest rate cap instrument is considered speculative and is carried at current market value.

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 amounted to \$1,103, \$1,046 and \$987 in 2007, 2006 and 2005, 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 29, 2007, 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 realized, and that a full valuation allowance is required. Deferred tax assets will only be realized to the extent future earnings are taxable to True Value and not allocated to members as tax-deductible patronage dividends.

Per Share Information

True Value's Redeemable Class A voting common stock is owned by members. True Value's Redeemable Class B nonvoting common stock now outstanding was issued to members in partial payment of the annual patronage dividend. There is no

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

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

The carrying amounts of True Value's financial instruments, which were comprised primarily of accounts and notes receivable, accounts payable, short-term borrowings, long-term debt and subordinated promissory and subordinated promissory installment notes, approximate fair value. The total carrying amount of debt and credit facilities approximates fair value due to their stated interest rates approximating market rates. These estimated fair value amounts have been determined using available market information or other appropriate valuation methodologies.

Concentration of Credit Risk

Credit risk pertains primarily to True Value's trade receivables. True Value extends credit to its members 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 member 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 member for such member's stock, notes, interest and declared and unpaid dividends against any obligation owed by the member to True Value. True Value, but not the member, may at its sole discretion exercise these set-off rights when any such funds become due to former members with outstanding accounts receivable to True Value and current members with past due accounts receivable to True Value.

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.

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement

No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. On February 1, 2008, the FASB issued FASB Staff Position No. FIN 48-2, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises" ("FSP FIN 48-2"). FSP FIN 48-2 establishes that FIN 48 is effective for annual periods beginning after December 15, 2007 for nonpublic entities that have not issued a full set of U.S. generally accepted accounting principles annual financial statements prior to the issuance of FSP FIN 48-2. Therefore, True Value has deferred adoption of FIN 48 to Fiscal 2008 and is currently evaluating the impact this standard will have on its financial statements, but does not expect the impact of its adoption to be material.

2. INVENTORIES

Inventories consisted of the following at:

(\$ in thousands)	December 29, 2007	December 30, 2006
Manufacturing inventories:		
Raw materials	\$ 1,733	\$ 2,323
Work-in-process and finished goods	17,508	23,635
Manufacturing inventory reserves	(2,120)	(2,489)
	17,121	23,469
Merchandise inventories:		
Warehouse inventory	309,311	286,830
Merchandise inventory reserves	(12,498)	(12,453)
	296,813	274,377
	\$313,934	\$297,846

The amount of warehouse, general and administrative costs included in ending inventory was \$20,649 and \$20,679 at December 29, 2007 and December 30, 2006, respectively. Warehouse, general and administrative costs incurred for 2007 and 2006, were \$94,075 and \$95,470, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

3. PROPERTY, PLANT & EQUIPMENT

Property, Plant & Equipment consisted of the following at:

(\$ in thousands)	December 29, 2007	December 30, 2006
Buildings and improvements	\$ 68,482	\$ 65,168
Machinery and warehouse equipment	72,569	70,669
Office and computer equipment, and software	136,512	125,669
Transportation equipment	19,747	20,429
	297,310	281,935
Less: accumulated depreciation	(229,337)	(219,412)
	67,973	62,523
Land	2,340	2,340
	\$ 70,313	\$ 64,863

Depreciation expense for 2007, 2006 and 2005 was \$12,993, \$12,669 and \$13,181, respectively.

4. DEBT ARRANGEMENTS

Long-term debt consisted of the following at:

(\$ in thousands)	December 29, 2007	December 30, 2006
Bank Facility	\$ 27,700	\$ 46,400
Real estate mortgage	20,504	21,070
Capital lease obligations	6,301	7,448
Total third-party debt	54,505	74,918
Subordinated promissory and subordinated promissory installment notes	72,935	69,559
	127,440	144,477
Less amounts due within one year	(28,564)	(45,185)
	\$ 98,876	\$ 99,292

The weighted average of stated interest rates on total debt was 6.41% and 6.65% as of December 29, 2007 and December 30, 2006, respectively.

At December 29, 2007, True Value had \$27,700 in Bank Facility borrowings in which the entire amount was included in Long-term debt including notes and capital lease obligations, less current maturities. At December 30, 2006, True Value had \$46,400 in Bank Facility borrowings, of which \$26,400 was included in Long-term debt including notes and capital lease

obligations, less current maturities. Based on True Value's projection of seasonal working capital needs, the amount of the Bank Facility classified as long-term debt represents the expected lowest level of borrowings during the next 12 months for each year.

Bank Facility

On November 30, 2006, True Value entered into a five-year \$250,000 senior secured revolving credit facility ("Bank Facility") maturing in 2011. The Bank Facility contains an "accordion" provision which gives True Value an option to increase the credit limit by \$100,000 for a total of \$350,000. True Value's availability as of December 29, 2007 and December 30, 2006 was \$210,175 and \$187,683, respectively.

The interest rate charged for the Bank Facility borrowings is variable at either LIBOR or prime at True Value's option, plus in either case, an additional amount of interest determined based on a performance-based pricing grid. As of December 29, 2007 and December 30, 2006 this interest rate was 6.5% and 7.2%, respectively. The average all-in rate charged for use of the Bank Facility which includes the unused commitment fee and the letter of credit fee was 7.0% and 7.9% for 2007 and 2006, respectively.

The Bank Facility imposes certain limitations on and requires compliance with covenants from True Value that are usual and customary for similar senior secured revolving credit facilities. Unless such terms and conditions are waived by a majority of the lenders, these terms and conditions include, among other things 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. Management believes it is in compliance with these requirements and is in compliance with all terms and conditions of the Bank Facility.

Fees paid for obtaining the Bank Facility totaled \$1,041 and these fees are being amortized by True Value over the five-year term of the Bank Facility. Upon entering into the Bank Facility in fiscal 2006, True Value wrote off the remaining capitalized fees of \$1,346 from the asset-based revolving credit facility ("Prior Bank Facility"). The Bank Facility refinanced the Prior Bank Facility of \$275,000 with a maturity date of August 2008. The Bank Facility provides True Value with lower interest rates and administrative costs, less restrictive terms and conditions, and certainty to its line of credit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

Mortgage Transaction

On December 29, 2005, True Value entered into a \$21,600 mortgage transaction on its Manchester, New Hampshire, distribution center (the "Mortgage"). The balance at December 29, 2007 is \$20,504. 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. Prior experience indicates that the maturities of a significant portion of the notes due within one year are often extended at the option of the member, for a three-year period, at interest rates established by True Value and substantially equivalent to competitive market rates of comparable instruments. In both 2007 and 2006, approximately 85% of notes scheduled to mature in those years were extended for an additional three years. True Value anticipates that this practice of extending notes, based on historical results, will continue.

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 6, "Members' Equity – Capital Stock Redemption").

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

(\$ in thousands)	December 29, 2007	December 30, 2006
Subordinated promissory notes at interest rates from 6.00% to 8.00%, maturing from 2006 to 2011	\$ 48,562	\$ 48,186
Accrued dividend notes liability	8,857	2,862
Subordinated promissory installment notes at interest rates of 4.36% to 5.68% maturing from 2007 to 2011	13,995	17,216
Accrued stock redemption liability	1,521	1,295
	72,935	69,559
Less amounts due within one year	(26,652)	(22,724)
	\$46,283	\$46,835

Accrued dividend notes liability are subordinated promissory notes that are issued as part of the settlement of the patronage dividend for that fiscal year. For fiscal 2007, the subordinated promissory notes that were issued with the distribution of the patronage dividend in 2008, bear an interest rate of 5.00% and mature in 2012. For fiscal 2006, the subordinated promissory notes that were issued with the distribution of the patronage dividend in 2007, bear an interest rate of 7.00% and mature in 2011.

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

Amounts shown below as scheduled repayments are the stated note amounts. As it has historically done, True Value will continue to seek members' consent in 2008 to extend the subordinated promissory note due dates at market competitive interest rates.

Principal payment schedule for long-term debt:

(\$ in thousands)	2008	2009	2010	2011	2012	Thereafter
Bank Facility ⁽¹⁾	\$ –	\$ –	\$ –	\$ 27,700	\$ –	\$ –
Real Estate Mortgage	606	648	693	741	793	17,023
Subordinated promissory and subordinated promissory installment notes	26,652	16,985	16,108	4,090	9,100	–
Capital lease obligations	1,306	1,277	1,366	1,352	927	73
Total	\$28,564	\$18,910	\$18,167	\$33,883	\$10,820	\$17,096

(1) Borrowings under the Bank Facility fluctuate as a result of the seasonal needs of the business. There are no required payments until the maturity of the Bank Facility in November 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

5. LEASE COMMITMENTS

True Value is a lessee of distribution centers, office space, and computer, manufacturing and transportation equipment under operating and capital leases. The following is a schedule of future minimum lease payments under capital and long-term noncancelable operating leases (including sale leasebacks), together with the present value of the net minimum lease payments under capital leases, as of December 29, 2007:

(\$ in thousands)	Capital	Operating
2008	\$ 1,704	\$ 36,372
2009	1,587	34,686
2010	1,585	32,552
2011	1,494	23,849
2012	1,099	22,393
Thereafter	75	164,160
Net minimum lease payments	7,544	\$314,012
Less amount representing interest	(1,243)	
Present value of net minimum lease payments	6,301	
Less amount due within one year	(1,306)	
	\$4,995	

Minimum annual operating lease payments as shown have been reduced by \$1,809 from future sublease rentals due over the term of the subleases, and include estimated payments for operating costs and real estate taxes due to the lessor, where applicable.

Capitalized leases expire at various dates and generally provide for purchase options but not renewals. Purchase options provide for purchase prices at either fair market value or a stated value, which is related to the lessor's book value at the expiration of the lease term.

Rent expense under operating leases (reduced by sublease rentals) was \$37,639, \$36,775 and \$34,085 for the years ended December 29, 2007, December 30, 2006 and December 31, 2005, respectively.

Sale Leaseback Transaction

In December 2002, True Value sold seven of its distribution centers to unrelated third parties for an aggregate purchase price of \$125,753 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 gain on sale of \$55,564 was recorded as deferred gain in the Consolidated

Balance Sheet and is being amortized to income on a straight-line basis over the initial 20-year lease term. 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.

6. MEMBERS' EQUITY

Capitalization

True Value's capitalization from its members is classified in Members' equity and Liabilities. Members' equity is comprised of Redeemable Class A voting common stock, Redeemable qualified Class B nonvoting common stock, Accumulated deficit, Loss allocation, Deferred patronage and Accumulated other comprehensive loss. Members are required to purchase upon becoming a member, 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 is redeemable by True Value and has voting rights (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 member 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 members, which disclose to the recipient the stated amount allocated to the member 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 members 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

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 prior 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 are classified in long-term liabilities because they have a planned redemption schedule that calls for at least 10% of the shares to be redeemed by December 31, 2011; 40% of the shares by December 31, 2019; and all of the shares by December 31, 2029.

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 member, upon 60 days' written notice, may terminate membership without cause. In the event membership is terminated, True Value undertakes to purchase, and the member is required to sell to True Value, all of the member'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 members' 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 2006, 2007 and 2008 the rate was 5.30%, 5.68% and 4.28%, respectively. 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 members may owe True Value, including accounts and notes receivable, loss allocations and/or accumulated deficit.

Loss Allocation to Members and Accumulated Deficit

During the third quarter of 2000, True Value management developed and the board of directors approved a plan to equitably allocate to members the loss incurred in 1999. This loss was previously recorded as a reduction of retained earnings. True Value has distributed the 1999 loss among its members by establishing a loss allocation account as a contra-equity account in the Consolidated Balance Sheet with the offsetting credit recorded to the accumulated deficit account. The loss allocation account reflects the sum of each member's proportionate share of the 1999 loss, after being reduced by certain amounts that were not allocated to members. The allocation was generally based on a member's proportionate Class B stock investment relative to the total Class B stock investments of all the members, and therefore a member could not be allocated a loss in excess of its equity investment. The loss allocation account will be satisfied, on a member-by-member basis, by applying the portion of future non-cash patronage dividends as a reduction to the loss allocation account until fully satisfied. The loss allocation amount may also be satisfied, on a member-by-member basis, by applying the par value of maturing member notes and related interest payments as a reduction to the loss allocation account until such account is fully satisfied. However, in the event a member should terminate as a stockholder of True Value, any unsatisfied portion of that member's loss allocation account will be satisfied by reducing the redemption amount paid for the member's stock investment in True Value. As of December 29, 2007, \$109,140, or approximately 96%, of the \$113,918 1999 loss allocation was satisfied. As of December 30, 2006, \$106,776, or approximately 94%, of the \$113,918 1999 loss allocation was satisfied.

The board of directors determined that True Value would retain the 2001 loss as part of the accumulated deficit account. All or a portion of patronage income and all non-patronage income, if any, may be retained in the future to reduce the accumulated deficit account. In the event a member terminates its status as a stockholder of True Value, any remaining 2001 loss in the accumulated deficit account that is allocable to the terminated member will be distributed to the terminating member and satisfied by reducing the redemption amount paid for the member's stock investment in True Value. True Value has determined for each member that was both a stockholder and purchased from True Value in 2001, its share of the 2001 loss that has been retained in the accumulated deficit account. Approximately 18% of the \$50,687 2001 loss was allocated based upon the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

member's proportionate equity investment, net of any 1999 loss allocation account, relative to the total equity investments of all members that were both stockholders and purchased from True Value in 2001. Approximately 82% of the total 2001 loss was effectively allocated based on the member's purchases from True Value in 2001 using the same methodology as described below in "Patronage Dividend." No member was allocated a loss amount greater than its net equity investments held as of year-end 2001. At December 29, 2007 the remaining balance of the 2001 loss, which was the balance in the accumulated deficit account, was approximately 48% of the original 2001 loss.

7. PATRONAGE DIVIDEND

True Value operates on a cooperative basis with respect to business transacted with or for members. When there are annual profits, members in good standing are entitled to receive patronage dividend distributions from True Value on the basis of gross margins of merchandise purchased by each member. 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 members out of patronage source income, less certain deductions, calculated as provided in the following sentence. The total patronage dividend paid to members 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 non-member 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, relay, direct shipment and paint. Once the patronage dividend is allocated to the purchase categories, it is distributed to members based on the relative gross margin participation of the member 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 reserve, to reduce the accumulated deficit account. For the 2006 patronage dividend that was paid in 2007, the board of directors has authorized an additional one time retention of \$9,911 primarily related to reversals of litigation reserves, benefit plan gains and an extra 10% over the base 5% of net patronage source income, as a reasonable reserve, to reduce the accumulated deficit account. For the 2007 patronage dividend that was paid in 2008, the board of directors authorized retaining an extra 5% over the base 5% of the net patronage source income, as a reasonable reserve, to reduce the accumulated deficit account.

Patronage dividends related to the year ended December 29, 2007, were \$56,131. Approximately \$17,392 of the dividend was paid in cash, which was approximately 30% of the estimated patronage dividend for the year. 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 paid the remainder through the issuance of True Value's Redeemable qualified Class B nonvoting common stock and subordinated promissory notes. For those members who have loss allocation accounts, the Redeemable qualified Class B nonvoting common stock was offset against those accounts. Patronage dividends of \$52,074 related to the year ended December 30, 2006, were paid in March 2007, approximately 30% of which were paid in cash. True Value paid the remainder through the issuance of True Value's Redeemable qualified Class B nonvoting common stock and subordinated promissory notes, offsetting that against the loss allocation accounts of those members that had such accounts. Patronage dividends of \$43,870 related to the year ended December 31, 2005, were paid in March 2006, approximately 30% of which were paid in cash. True Value paid the remainder through the issuance of True Value's Redeemable qualified Class B nonvoting common stock and subordinated promissory notes, offsetting that against the loss allocation accounts of those members that had such accounts.

8. COMMITMENTS AND CONTINGENCIES

True Value is involved in various claims and lawsuits incidental to its business. The following significant matters existed at December 29, 2007:

Active Legal Matters:

Flegles Action

On February 12, 2003, a former True Value member, Flegles Inc. ("Flegles"), filed suit against True Value in the Circuit Court of Carlisle County, Kentucky. On July 30, 2004, a jury found True Value liable to Flegles for certain losses incurred by Flegles and awarded Flegles \$1,300 in compensatory damages. The jury did not award any punitive damages. True Value filed post-trial motions seeking to set aside the verdict or be awarded a new trial. These motions were denied. True Value then pursued an appeal in the Kentucky Appellate Court.

On June 2, 2006, the Kentucky Appellate Court, after having heard arguments from both sides, reversed the judgment of the Kentucky Trial Court which had awarded \$1,300 in compensatory damages to Flegles. Accordingly, True Value reversed its prior years' litigation reserve and recognized \$650 of income in the quarter ended July 1, 2006. On July 3, 2006, Flegles filed a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

motion asking the Kentucky Supreme Court to review the Appellate Court's reversal of the Trial Court. On February 14, 2007, the Kentucky Supreme Court issued an Order granting Flegles Motion for Discretionary Review. True Value filed its cross-motion for discretionary review which was granted by the Kentucky Supreme Court April 11, 2007. Flegles' opening brief to the Kentucky Supreme Court was filed June 11, 2007. True Value's reply brief on Flegles appeal and its opening brief on True Value's cross appeal were filed August 13, 2007. Flegles response brief to True Value's cross appeal was filed on October 12, 2007, and True Value's sur-reply to Flegles response was filed on October 30, 2007. Oral argument was heard by the Kentucky Supreme Court on January 18, 2008.

Claims Against Ernst & Young LLP

True Value pursued claims against its former outside auditors, Ernst & Young LLP ("E&Y"), for professional malpractice, breach of contract, deceptive business practices and fraud. True Value contended that E&Y failed to properly discharge its duties to True Value and failed to identify, in a timely manner, and indeed concealed, certain material weaknesses in True Value's internal financial and operational controls. Hearings before the arbitration panel occurred in early 2005.

On July 28, 2005, the arbitration panel denied True Value's claims against E&Y in their entirety. This decision of the arbitration panel also required True Value to reimburse E&Y for reasonable attorneys' fees and expenses related to this matter. On August 17, 2005, True Value filed a motion asking the panel to reconsider its award of attorneys' fees and expenses. In its motion, True Value claimed that the panel exceeded its authority when it awarded attorneys' fees and expenses to E&Y. On October 19, 2005, the panel denied this motion.

On January 17, 2006, True Value filed a petition with the Circuit Court of Cook County in Illinois ("Circuit Court") to preserve its rights to further challenge the panel's authority to award any attorneys' fees and expenses and to vacate the final award when it is entered.

On April 3, 2006, the arbitration panel in the E&Y matter issued its final award. The panel ordered True Value to pay to E&Y, attorneys' fees and expenses totaling \$12,191 and reimbursement of American Arbitration Association fees and expenses totaling \$384. As a result, True Value reduced its initial reserve of \$18,200 that was recorded in the third quarter of 2005 based upon the arbitration panel's original decision, and recorded an adjustment to prior year arbitration reserve of \$5,625, in the period ended April 1, 2006. On May 22, 2006, True Value satisfied a portion of the judgment by paying E&Y \$384.

On August 25, 2006, the Circuit Court upheld the arbitration panel's final award ordering True Value to pay attorneys' fees and expenses to E&Y. On September 28, 2006, True Value satisfied this portion of the judgment by paying E&Y \$12,191. On October 27, 2006, the Circuit Court ordered True Value to pay \$530 in interest to E&Y. On November 17, 2006, True Value satisfied this final portion of the judgment by paying E&Y \$530. True Value filed an appeal with the Illinois 1st District Court of Appeals which scheduled oral argument for the end of July, 2007. On August 28, 2007, the District Court of Appeals reversed the judgment and remanded the matter to the circuit court with directions to remand to the arbitration panel with instructions to vacate that portion of the award attributable to expert witness fees and to confirm and reinstate the award in all other respects. The amount, if any, attributable to expert witness fees is not determinable at this time. True Value filed a Petition for Rehearing on September 17, 2007 which was denied on September 20, 2007. The mandate from the appellate court was filed November 29, 2007 returning the matter to the circuit court as directed in the August 28, 2007 opinion. The matter has now been returned to the American Arbitration Association for action by the panel.

Other Matters

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.

9. INCOME TAXES

Income tax expense consisted of the following for fiscal years:

(\$ in thousands)	2007	2006	2005
Current:			
Federal	\$ -	\$ -	\$ -
State	29	54	51
Foreign	-	-	-
Total current	29	54	51
Deferred:			
Federal	-	-	-
State	-	-	-
Foreign	-	-	-
Total deferred	-	-	-
	\$29	\$54	\$51

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

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 members 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:

(\$ in thousands)	2007	2006	2005
Tax at Worldwide statutory rate	\$ 22,329	\$ 25,492	\$ 16,690
Effects of:			
Patronage dividend	(19,907)	(18,488)	(15,616)
State income taxes, net of federal benefit	19	35	33
Decrease in valuation allowance	(2,626)	(7,247)	(1,403)
Other, net	214	262	347
	\$ 29	\$ 54	\$ 51

Deferred income taxes reflect the net tax effects to True Value of its net operating loss carryforwards, which expire in years through 2025, 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 reduced in 2007 by \$2,485. This reduction is attributable to the net effect of a \$412 decrease attributable to amounts to be charged against members' loss allocation accounts and by a \$2,073 decrease primarily in other deferred tax assets and liabilities. The 2006 valuation allowance change over the prior year was a result of the decision made by the board of directors to increase the current year retention of income thereby reducing the accumulated deficit account.

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 realized. Deferred tax assets will only be realized to the extent future earnings are taxable to True Value and not allocated to members as tax-deductible patronage dividends.

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

(\$ in thousands)	2007	2006
Deferred tax assets:		
Net operating loss carryforwards	\$ 5,294	\$ 7,778
AMT credit carryforward	784	784
Nonqualified notices of allocation	7,598	8,016
Bad debt provision	438	440
Vacation pay	3,200	3,041
Reserves and accruals	124	108
Deferred gain	16,669	17,780
Severance and restructuring costs	1,015	1,090
Book depreciation in excess of tax depreciation	2,218	1,659
Rent expense	1,903	2,300
Inventory capitalization	885	523
Other	6,497	6,214
Total deferred tax assets	46,625	49,733
Valuation allowance for deferred tax assets	(44,628)	(48,070)
Net deferred tax assets	1,997	1,663
Deferred tax liabilities:		
Contributions to fund retirement plans	1,997	1,663
Net deferred taxes	\$ -	\$ -

10. 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; for members with loss allocation accounts, the Class B nonvoting common stock is offset to satisfy members' remaining allocation of the 1999 loss. Non-cash operating and financing activities relating to the issuance of patronage dividends were as follows for the years ended:

(\$ in thousands)	December 29, 2007	December 30, 2006	December 31, 2005
Distribution of annual patronage dividend:			
Patronage dividend payable in cash	\$17,392	\$15,713	\$13,257
Issuance of subordinated promissory notes	8,857	2,862	1,228
Issuance of Redeemable Class B non-voting common stock	28,721	30,222	22,548
Reduction of Loss allocation accounts	1,161	3,277	6,837
Total	\$56,131	\$52,074	\$43,870

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

True Value may set off its obligation to make payments to members for redeemable stock, notes, interest or declared and unpaid dividends against any obligation owed by the member 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 2007 and 2006 of \$9,816 and \$7,447, respectively, against obligation owed by the member to True Value for loss allocation accounts, amounts related to the 2001 loss and accounts receivables of \$3,437 and \$2,926. The remaining amount due to members was partially satisfied with subordinated promissory installment notes of \$5,061 and \$4,403 in 2007 and 2006, respectively.

True Value exercised its set-off rights with member accounts receivable when True Value member notes and interest came due. True Value in 2007, 2006 and 2005 set off \$565, \$477 and \$579, respectively, of notes and interest payments due to members against amounts due from members for accounts receivable.

In 2007, 2006 and 2005, True Value extended subordinated promissory notes, at the option of the member for a three-year period in the amounts of \$12,796, \$13,914 and \$18,075, respectively.

True Value's non-cash financing and investing activities in 2007 were related to the acquisition of warehouse equipment by entering into capital leases in the amount \$953. In 2006 and 2005, True Value's non-cash financing and investing activities were primarily related to the acquisition of paint manufacturing and computer equipment by entering into capital leases in the amounts of \$3,817 and \$4,760, respectively.

Cash paid for interest during 2007, 2006 and 2005 totaled \$12,236, \$14,161 and \$13,088, respectively. Cash paid for income taxes during 2007, 2006 and 2005 totaled \$38, \$32 and \$39, respectively.

11. BENEFIT PLANS

True Value had sponsored two noncontributory defined benefit retirement plans. Effective with the fiscal year ended 2006, these plans were amended to freeze participation and benefit accruals, with no additional service accrued after such date, except with respect to certain participants covered by certain collective bargaining agreements. As a result of the freeze in these plans, a curtailment net gain of \$3,620 was recorded in 2006. At December 29, 2007, only True Value's Allentown and Manchester facilities remained under the defined pension retirement plan provisions under the old collective bargaining agreements. The Allentown facility's defined benefit retirement plan will be frozen effective April 2008. The Manchester facility's collective bargaining agreement has not yet been renegotiated.

(\$ in thousands)	December 29, 2007	December 30, 2006
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$74,766	\$85,490
Service cost	758	5,563
Interest cost	4,447	4,119
Benefit payments	(393)	(411)
Actuarial (gains)/losses	4,380	(2,856)
Curtailments	-	(8,829)
Settlements	(7,638)	(8,310)
Projected benefit obligation at end of year	76,320	74,766
Change in plan assets:		
Fair value of plan assets at beginning of year	68,045	67,647
Actual return on assets	4,512	5,994
Employer contributions	3,302	3,125
Benefit payments	(393)	(411)
Settlements	(7,638)	(8,310)
Fair value of plan assets at end of year	67,828	68,045
Reconciliation of funded status:		
Funded status	(8,492)	(6,721)
Items not yet recognized as a component of net pension cost:		
Prior Service Cost:		
Prior year balance	-	(3,795)
Current year amortization	-	175
Current year curtailment impact	-	3,620
Prior service cost	-	-
Actuarial (gain)/loss:		
Prior year balance	10,878	27,123
Current year amortization	(1,230)	(1,710)
Current year settlement impact	(1,309)	(1,917)
Current year curtailment impact	-	(8,830)
(Gain)/loss arising during current period	5,144	(3,788)
Actuarial loss	13,483	10,878
Prepaid expense	\$ 4,991	\$ 4,157

The Accumulated Benefit Obligation ("ABO") for True Value administered pension plans was \$75,602 and \$74,766 at December 29, 2007 and December 30, 2006, respectively.

As of December 30, 2006, the pension plans had unrecognized actuarial losses of \$10,878. The major source of actuarial losses under the plan are related to the decline in interest rates over

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

the last several years and lower than expected asset returns during the same period. Deviations from expected returns on assets are rolled into unrecognized actuarial losses over a three-year period. Actuarial losses are amortized using the minimum amortization methodology as described in FASB Statement No. 87, "Employers' Accounting for Pensions" ("FAS 87"). At December 29, 2007, unrecognized actuarial losses increased \$2,605 to \$13,483. Major sources of this change that occurred during 2007 include increases resulting from a decrease in the assumed lump sum conversion rate of \$3,400, actuarial losses due to 2007 settlements of \$1,110, less than expected asset returns during 2007 of \$764 and other miscellaneous census related items of \$1,266. Partially offsetting these increases were decreases resulting from an increase in the discount rate during 2007 of \$1,396, actuarial losses recognized under FASB Statement No. 88, "Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" settlement accounting of \$1,309 and amortization of actuarial losses recognized under FAS 87 of \$1,230.

One of True Value's pension plans is the supplemental retirement plan ("SRP"), which is an unfunded unqualified defined benefit plan. The SRP had an ABO of \$4,490 and \$4,607 as of December 29, 2007 and December 30, 2006, respectively. Since the SRP is an unfunded plan, there were no plan assets at December 29, 2007 and December 30, 2006.

In December 2006, True Value adopted the FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("FAS 158"). FAS 158 requires that an employer with a defined benefit plan to recognize the funded status of the benefit plan; recognize as a component of Other comprehensive income, the gains or losses and prior service costs or credits that are not recognized as components of net periodic benefit costs; and measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end. At December 30, 2006, the primary effect of this adoption was to net the prepaid pension expense amount of \$4,157 against the previously recorded minimum liability of \$10,878 to arrive at the net unfunded accumulated benefit obligation of \$6,721, as well as record a portion of the resulting liability as current.

At December 30, 2006, True Value recorded in Other long-term liabilities an additional minimum pension liability of \$6,721 for all True Value administered pension plans. Due to the adoption of FAS 158 in 2006, the minimum liability represented the net unfunded ABO at December 30, 2006, equaling the unrecognized actuarial losses of \$10,878 less the prepaid pension asset

of \$4,157. The unrecognized actuarial loss for both plans of \$10,878 was recorded as a reduction of Members' equity in Accumulated other comprehensive loss. Due to a Plan freeze, there was no unrecognized prior service cost at December 30, 2006, and no intangible asset recorded.

The amount of Accumulated other comprehensive income that is expected to be recognized into expense during 2008 resulting from recognition of deferred actuarial losses from amortization and settlements is \$771.

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

(\$ in thousands)	December 29, 2007	December 30, 2006	December 31, 2005
Components of net periodic pension cost:			
Service cost	\$ 758	\$ 5,563	\$ 5,929
Interest cost	4,447	4,119	4,124
Expected return on assets	(5,276)	(5,062)	(4,634)
Amortization of prior service cost/(benefit)	-	(175)	(175)
Amortization of actuarial loss	1,230	1,709	1,411
Curtailment gain	-	(3,620)	-
Settlement loss	1,309	1,919	2,472
Net pension cost	\$2,468	\$4,453	\$9,127

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

	December 29, 2007	December 30, 2006	December 31, 2005
Measurement Date	12/30/2006	12/31/2005	12/31/2004
Weighted average assumptions:			
Discount rate	5.75%	5.25%	5.50%
Expected return on assets	8.00%	8.00%	8.00%
Rate of compensation increase	3.50%	3.50%	3.50%

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. The minimum expected rate of return over a three to five year market cycle is that which equals the plan's expected benefit obligations plus the inflation rate. It has also been True Value's policy to maintain plan assets equal to at least 90% of current liability and its policy for 2008 is to increase this ratio to 94%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

Plan assets are diversified across several investment managers and are generally invested in liquid funds that are selected to track broad market equity and bond indices. 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 29, December 30,	
		2007	2006
Domestic equities	65.0%	63.9%	62.1%
Foreign equities	10.0%	11.2%	11.6%
Fixed income	25.0%	24.0%	23.0%
Cash	0.0%	0.9%	3.3%
Total	100.0%	100.0%	100.0%

Contributions

True Value expects to contribute \$1,000 to its qualified pension plan and \$425 to its SRP plan in 2008. True Value also participates in union-sponsored defined contribution plans. Costs related to these plans were \$100, \$105 and \$75 for 2007, 2006 and 2005, respectively.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

(\$ in thousands)	Pension Benefits
2008	\$9,174
2009	8,682
2010	8,299
2011	7,791
2012	7,291
2013–2017	30,484

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

	December 29, 2007	December 30, 2006
Weighted average assumptions:		
Discount rate	6.00%	5.75%
Lump sum rate	5.00%	5.50%

The discount rate of 6.0% was primarily based on spot-yields as of December 29, 2007 from the Citigroup Pension Discount Curve, in conjunction with interest rate trends from Moody's Aa bonds. The Citigroup Pension Discount Curve was developed using high-quality corporate bonds.

The plan assumes a future lump sum conversion rate of 5.0% and 5.5% in the calculation of the Projected Benefit Obligation ("PBO") as of December 29, 2007 and December 30, 2006, 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 basis used to determine the overall expected return on assets was an analysis of the historical real (net of inflation) returns from back to 1926 for a portfolio consisting of large-cap U.S. equities, corporate bonds, U.S. government bonds and cash (intended to approximate True Value's pension asset mix). Using the historical returns over 30-year periods, the average returns for this portfolio over 30-year periods were calculated – the calculated 25th and 75th percentile were 4.6% and 6.4%, respectively. With the inflation assumption (3.0%) and the adjustment for expected fees paid from the pension trust (1.0%), the 25th and 75th percentile nominal yields are 6.6% and 8.4%. The True Value Company Defined Benefit Pension Plan assumes an actuarial rate of return of 8.0%.

The average expected future service under the plan during 2007 was approximately 7.56 years.

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 \$15.5, \$15 and \$14 per year for 2007, 2006 and 2005, respectively. Also, plan participants who are 50 years of age or older may elect to make additional catch-up contributions not to exceed \$5 for both 2007 and 2006 and \$4 for 2005. The total participants' deferred compensation including True Value's contributions to the participants' balances may not exceed \$45, \$44 and \$42 in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

2007, 2006 and 2005, respectively. Beginning in 2007, True Value's 401k Plan for most participants 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. For certain other plan participants in 2007 and for all plan participants previous to 2007, True Value's 401k Plan included a guaranteed match of one-third of a participant's contribution up to a total of 2% of the participant's annual compensation. Also, based on True Value achieving certain financial goals, a match of greater than one-third of a participant's contribution could be earned. A match equaling two-thirds of a participant's contribution, up to a total of 4% of the participant's annual 401k eligible compensation was earned for 2005 and 2006 and funded in March 2006 and 2007, respectively. For 2007, a match equaling up to 5% of most participants' annual compensation was earned and funded throughout the year while for certain others a match equaling 100%, up to a total of 6% of the participants' annual 401k eligible compensation was earned and will be funded in March 2008. True Value recognized costs of \$5,134, \$3,103 and \$3,056 for 2007, 2006 and 2005, respectively, for the 401k Plan.

12. ASSET SALES

On April 20, 2005, True Value sold its 640,000-square-foot East Butler, Pennsylvania, warehouse and office facility to a third party for a purchase price of \$6,188. In the first quarter of 2005, True Value recorded an impairment charge of \$942 to write-down this facility that was classified as held for sale to fair value. Pursuant to the Purchase and Sale Agreement, True Value leased back approximately 100,000 square feet of warehouse space through the end of 2005 and approximately 15,000 square feet of office space through the end of 2009 under an operating lease.

On December 28, 2005, True Value sold its 105,000-square-foot Chicago, Illinois, oil-based paint manufacturing facility to a third party for a purchase price of \$10,125. True Value recorded a net gain of \$9,080 on the sale.

13. SEGMENT INFORMATION

True Value is principally engaged as a wholesaler of hardware and related products and is a manufacturer of paint products. True Value identifies segments based on management responsibility and the nature of the business activities of each component of its business. True Value measures segment earnings as operating earnings including an allocation for interest expense and income taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)

Information regarding the identified segments and the related reconciliation to consolidated information are as follows:

(\$ in thousands) As of and for the year ended December 29, 2007

	Hardware	Paint Manufacturing and Distribution	Consolidated Totals
Net sales to external customers	\$ 1,955,259	\$ 85,343	\$ 2,040,602
Interest expense	10,696	1,771	12,467
Depreciation and amortization	13,171	1,845	15,016
Segment net margin	57,704	6,063	63,767
Identifiable segment assets	675,301	44,859	720,160
Expenditures for long-lived assets	16,434	649	17,083

(\$ in thousands) As of and for the year ended December 30, 2006

	Hardware	Paint Manufacturing and Distribution	Consolidated Totals
Net sales to external customers	\$ 1,946,085	\$ 103,891	\$ 2,049,976
Interest expense	11,917	2,674	14,591
Depreciation and amortization	12,401	1,890	14,291
Segment net margin	61,025	11,754	72,779
Identifiable segment assets	631,892	53,878	685,770
Expenditures for long-lived assets	11,297	1,824	13,121

(\$ in thousands) As of and for the year ended December 31, 2005

	Hardware	Paint Manufacturing and Distribution	Consolidated Totals
Net sales to external customers	\$ 1,936,563	\$ 106,471	\$ 2,043,034
Interest expense	11,756	2,457	14,213
Depreciation and amortization	11,703	1,913	13,616
Segment net margin	39,047	8,508	47,555
Identifiable segment assets	695,235	56,294	751,529
Expenditures for long-lived assets	9,439	5,204	14,643

True Value does not have a significant concentration of members in any geographic region of the United States or in any foreign countries.



True Value
 — COMPANY —

8600 W. Bryn Mawr Ave. | Chicago, IL 60631-3505 | 773.695.5000

www.truevaluecompany.com

© 2008 True Value Company

