FINANCIAL REPORT 2015

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

2015 Highlights:

True Value ("the Company") completed its first full year in the execution of its strategic plan which included significant investments in the Company to drive the three pillars of the plan: Engagement, Growth and Efficiency. There has been a significant amount of progress made in supporting these three pillars.

True Value implemented several initiatives to support the Engagement pillar. First, the Company provided customer service training to over 1,000 retailers and their employees, in the form of *My True Value – A New Customer Experience*^{SM}. This training focuses on the in-store customer experience by developing customer service skills and techniques. True Value also launched the *Customer Focus Vision* program, which provides the ability to have a consistent source for a single view of customers' information. This new internally managed platform allows for greater flexibility to create targeted customer engagement. Features include enriched reporting and efficient promotional targeting as well as supporting the *True Value Rewards* program internally. Finally, the Company created the *Center of Excellence* to develop new tools, training and best practices for the field to share with member-retailers for improving their profitability. The field team directly supports our members and partners to maximize our offerings and programs.

The Company saw results on the Growth pillar with its fifth consecutive year of increased annual sales. Gross billings were $2,033,196 up 0.9% for the company's 52 week reporting year compared to 53 weeks in 2014. When adjusted to reflect 2014 as a comparable 52 week year, gross billings increased 2.0%. Several contributing factors generated this growth. First, total comparable retail sales increased 3.1% while comparable Destination True Value ("DTV") retail sales increased 4.7%, both with solid growth every quarter. The investment in True Value's brand awareness initiative resulted in expanded national advertising plus five co-op supported national circulars for the retailers to help drive retailers' growth. Second, gross billings from new stores exceeded that from terminated stores by $8,548, representing the second year in a row of positive net new product gross billings. The Company converted several large chains during the year adding to our future growth potential.

Investment in other Growth initiatives assisted retailers with creating a relevant consumer experience and improving member profitability. In 2015, retailers remodeled 990,000 square feet of store space to the DTV and other relevant formats, up 2.2% from 969,000 square feet remodeled in 2014. Stores that remodel to the DTV format consistently outperform stores that do not, and these remodels are a key driver of comparable store sales increases. True Value issued $17,576 in interest-bearing loans to retailers to help them remodel, expand, relocate, or open new stores. In addition, True Value launched the Customized True Blue ("CTB") program, which highlights store assortments containing proven products at appropriate pricing, providing retailers the ability to adopt assortments that drive sales increases with minimal investment.

Significant changes were made in information technology and supply chain operations to support the Efficiency pillar. From an information technology perspective, True Value modernized mainframe storage capabilities. In addition, late in the year, the Company expanded and added bandwidth to handle more traffic and protect against outages and expanded mainframe computing capacity to handle a greater volume of orders. From a supply chain perspective, True Value focused on improved fill rates through the addition of safety stock and enhanced demand planning tools and capabilities. Finally, the Company outsourced the transportation fleet at the majority of its locations in order to modernize the tractor fleet, stabilize delivery costs and leverage the outsource provider's driver base as well as utilize their knowledge of the industry.

True Value's total strategic investment in the initiatives required $23,198 of expense compared to 2014 initiative expense of $13,216. The Company invested $11,581 in selling, general and administrative ("SG&A") expenses for initiatives such as retailer excellence including the *Center of Excellence, Customer Focused Vision* and *My True Value – A New Customer Experience*^{SM}. Additional investment was for improvements to the technology infrastructure and certain supply chain applications. The Company's brand awareness initiative included investment of $11,617, as well as support from vendors which allowed us to expand True Value's national media presence. The Company also incurred higher distribution costs in order to support increased inventory levels relating to several initiatives.

The strategic plan is a long-term view to provide the service and support to achieve retailer growth and profitability. Our retailers' profitability, store profit and patronage dividend combined, is our most important indicator of success. To support retailer profitability, the Board of Directors approved an increase in the cash portion of the patronage dividend to 100% in order to maintain a consistent level of patronage dividend cash flow to retailers compared to past years.

Company Operations:

True Value sells hardware products and paint to a network of global independent retailers. As of year-end 2015, the Company served approximately 4,500 stores. True Value also provides retail support services, advertising, merchandising, training and other services. True Value's primary source of revenue is the sale of hardware, paint and paint-related products, and general merchandise to retailer stores. These revenues result from shipments originating from True Value's distribution facilities and delivered to retailers, primarily via the Company's transportation network. True Value's revenue also includes the net profit associated with shipments that go directly from vendors to retailer stores. In addition, there are revenues from services provided to retailers, primarily in the form of advertising and transportation fees.

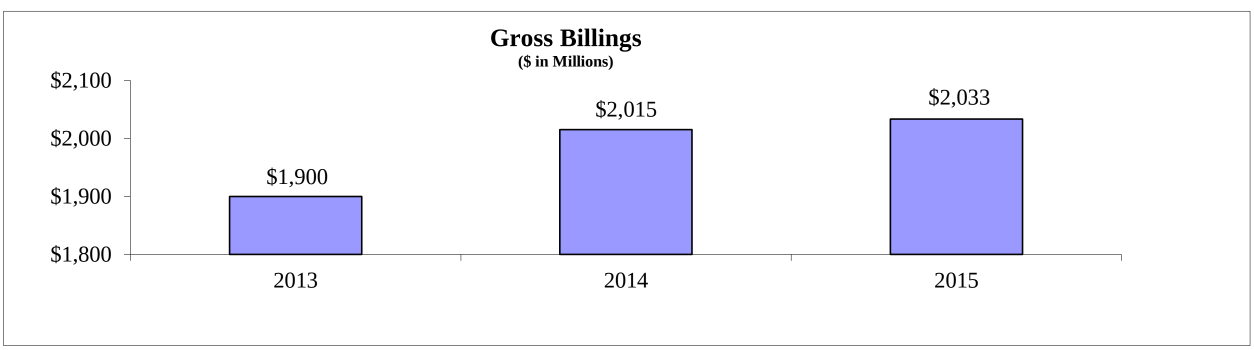
Cost of revenue includes the acquisition cost of merchandise (net of discounts and vendor incentives), transportation costs, inventory adjustments and advertising expenses. Logistics and Manufacturing expenses represent warehousing and paint manufacturing costs. SG&A costs include retail support center and field personnel expenses.

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

The following discussion summarizes the important factors to understand our results and performance in 2015. Management utilizes a variety of key measures to monitor the financial health of True Value's business, including Gross billings, Revenue, Retail Comparable Store Sales ("retail comp store sales"), as well as Net margin.

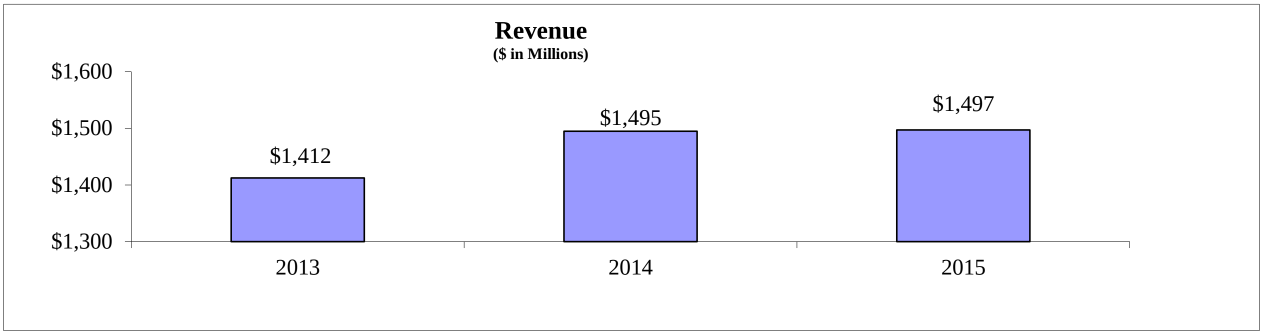
Gross Billings:

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

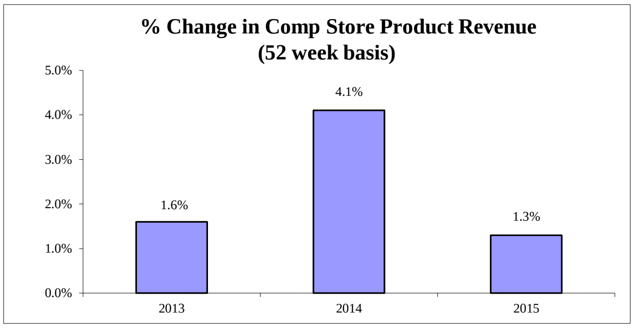


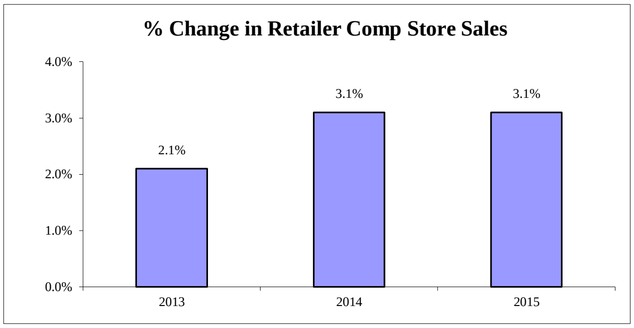
Gross billings increased for the fifth year in a row, up $18,356 or 0.9%, to $2,033,196 in 2015, a 52 week year, compared to $2,014,840 in 2014, a 53 week year. When adjusting 2014 to reflect a comparable 52 week year, gross billings were up $39,321 or 2.0%. Vendor direct billings increased by $22,528, or 4.2% (on a comparable 52 week comparison), predominately due to growth of our International retailers, as well as overall increases in the Seasonal and Rental categories. The warehouse gross billings increase of $17,897, or 1.3% adjusted to reflect a comparable 52 week basis, was primarily in the Farm Ranch Auto & Pet, Lawn and Garden, and Hardware, Lumber and Building categories.

Revenue:

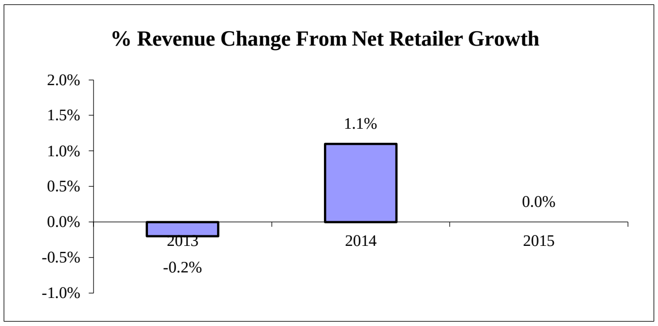


Revenue is the same as Gross billings except the vendor direct revenue is reduced by the vendor direct costs of revenue. In 2015, a 52 week year, revenue increased by $2,205, or 0.1%, to $1,497,228 compared to $1,495,023 in 2014, a 53 week year. The increase was $18,587, or 1.3% on a comparable 52 week basis. The increase was primarily due to wholesale comp store product sales.





Wholesale comparable product revenue increased in 2015 for the fifth consecutive year and was up 1.3% in 2015, while retail comparable store sales grew 3.1% based upon True Value supplied stock keeping units ("SKUs"), as reported by approximately 1,660 stores (all rates are based on 52 weeks in 2014 and 2015). Retail had increases across all regions in the country and all merchandise categories, led by recently expanded Farm Ranch Auto & Pet, up 7.3%.



True Value saw an uptick in the number of new stores as a result of new ground up and conversions from other cooperatives and distributors. In 2015, 63 domestic retailers converted to True Value. Also, in 2015 True Value added 72 new core hardware stores. In addition, 55 international and specialty stores signed with True Value in 2015. While the net number of participating stores decreased by 6 to 4,466 from 4,472 at the end of 2014, revenue from new stores exceeded lost revenue from terminated stores by $703 in 2015.

($ in thousands)

In 2016, True Value's plan calls for both retail and wholesale comp store sales to increase due to continued roll out of the various Growth initiatives including DTV store remodel activity, new stores and national advertising campaigns.

Net Margin:

True Value's net margin was $19,042 compared to $41,098 in 2014. The 2015 net margin included a significant impact from initiative investment expense consisting of an expanded national advertising program, information systems projects and additional resources in the *Center of Excellence.* Strategic plan investment expenses in 2015 and 2014 were $23,198 and $13,216, respectively. The Company also experienced higher net logistics and manufacturing costs of $7,025 to support increased inventory levels for several initiatives. In addition, the Company incurred higher inventory, pension and bad debt provisions, which were offset by reduced incentive compensation due to not meeting certain performance targets.

Results of Operations for 2015 compared to 2014

Revenue

A reconciliation of Revenue between 2015 and 2014 follows:

	Revenue	
2014 Revenue	$ 1,495,023	
53rd week	(16,382)	-1.1%
Comp store revenue	17,195	1.3%
Change in participating retailers:		
New retailers	40,802	2.7%
Terminated retailers	(40,099)	(2.7%)
Net change in participating retailers	703	0.0%
Vendor - direct revenue	1,793	0.1%
Advertising, transportation and other revenue	(1,104)	(0.1%)
Total change	2,205	0.1%
2015 Revenue	$ 1,497,228	
2015 Gross Billings	$ 2,033,196	

Revenue for the year ending January 2, 2016 totaled $1,497,228, an increase of $2,205, or 0.1%, compared to 2014. True Value's 2014 fiscal year included a 53rd week. On a comparable 52 week basis, revenue was up $18,587, or 1.3% compared to 2014. Comp store revenue increased by $17,195, or 1.3%, primarily due to an increase in the recently expanded Farm, Ranch, Automotive & Pet department. Other favorable departments include Lawn and Garden, and Hardware, Lumber and Building. Retail comp stores sales increased 3.1% as reported by approximately 1,660 members who provide point-of-sale data.

In addition, new retailers increased revenue by $40,802, or 2.7%. The increase in new member revenue is a combination of existing store conversions from other buying groups and "ground-up" stores opened under the new store initiative. Significantly offsetting the sales increases was a decrease in revenue of $40,099, or 2.7%, resulting from terminated retailers.

Gross billings totaled $2,033,196, an increase of $18,356 or 0.9%, as compared to the same period last year. On a 52 week comparable basis, gross billings increased $39,321, or 2.0%. The gross billings increase was due to the reasons discussed above, as well as increased direct shipment sales from the vendor to the retailer. Direct shipment sales increased by $22,528, or 4.2%, predominately due to growth of our International retailers, as well as increases in the Seasonal and Rental categories. Comp stores sales, on a gross billings basis, increased by 1.8%.

($ in thousands)

Gross Margin	**2015**	**2014**	**$ (Decrease)**
For the Year Ended	$205,544	$223,065	$(17,521)
Percent to Revenue	13.7%	14.9%	
Percent to Gross Billings	10.1%	11.1%	

Gross margin decreased by $17,521, or 7.9%, as compared to the prior year. The lower gross margin was mainly due to higher media spend, net of vendor reimbursements, related to the expanded advertising associated with the brand awareness strategic initiative of $11,617. Higher warehouse volume, as discussed above in the revenue section, favorably impacted gross margin, but was more than offset by lower margin rates on warehouse products which impacted gross margin unfavorably primarily due to lower rates on event sales. Furthermore, inventory provisions were higher by $4,122 primarily due to increased sales of discontinued products related to an effort to reduce unproductive inventory. Mitigating these increases, there was $1,812 of expenses incurred in 2014 related to the roll-out of the paint colorant system, which did not reoccur in 2015.

Finally, favorable vendor rebates and discounts, driven primarily by rate increases, were significantly offset by unfavorable transportation margin. The transportation margin was negatively impacted by expenses associated with the transition to the outsourced fleet, as well as upgrades in equipment. These increased costs were partially offset by favorable fuel prices.

Logistics and Manufacturing Expenses	**2015**	**2014**	**$ Increase**
For the Year Ended	$65,783	$58,758	$7,025
Percent to Revenue	4.4%	3.9%	
Percent to Gross Billings	3.2%	2.9%	

Logistics and manufacturing expenses increased by $7,025, or 12.0%, as compared to the prior year. The increase was due to higher variable costs on the incremental sales volume as well as increased warehouse and labor costs primarily due to increased levels of inventory related to several initiatives implemented this year, such as improved service levels. The increase was partially offset by lower paint advertising and administrative expense.

Selling, General and Administrative Expenses	**2015**	**2014**	**$ (Decrease)**
For the Year Ended	$112,890	$116,796	$(3,906)
Percent to Revenue	7.5%	7.8%	
Percent to Gross Billings	5.6%	5.8%	

SG&A expenses decreased by $3,906, or 3.3%, as compared to the prior year. The main driver favorably impacting SG&A was lower incentive compensation expense due to lower achievement of performance targets. The favorable SG&A variance was partially offset by planned strategic initiative investment spending as well as unfavorable bad debt and pension expense.

($ in thousands)

Interest Expense	2015	2014	$ (Decrease)/Increase
For the Year Ended - Retailers	$6,131	$6,207	$(76)
Percent to Revenue	0.4%	0.4%	
Percent to Gross Billings	0.3%	0.3%	
For the Year Ended – Third Parties	$5,817	$4,659	$1,158
Percent to Revenue	0.4%	0.3%	
Percent to Gross Billings	0.3%	0.2%	

Retailer interest expense was comparable to the prior year while third-party interest expense increased by $1,158, or 24.9%, respectively as compared to last year. Third-party interest expense increased predominately due to higher daily borrowings on the revolving credit facility, which was partially offset by a lower average interest rate.

Net Margin	2015	2014	$ (Decrease)
For the Year Ended	$19,042	$41,098	$(22,056)
Percent to Revenue	1.3%	2.7%	
Percent to Gross Billings	0.9%	2.0%	

The 2015 Net margin of $19,042 compares to the 2014 Net margin of $41,098. The decline in profitability was primarily driven by investments incurred in connection with the implementation of True Value's strategic plan.

Results of Operations for 2014 compared to 2013

Revenue

A reconciliation of Revenue between 2014 and 2013 follows:

	Revenue	
2013 Revenue	$ 1,411,507	
53rd week	16,382	1.2%
Comp store revenue	50,482	4.1%
Change in participating retailers:		
New retailers	42,696	3.0%
Terminated retailers	(27,576)	(1.9%)
Net change in participating retailers	15,120	1.1%
Vendor - direct revenue	688	0.0%
Advertising, transportation and other revenue	844	0.0%
Total change	83,516	5.9%
2014 Revenue	$ 1,495,023	
2014 Gross Billings	$ 2,014,840	

Revenue for the year ending January 3, 2015 totaled $1,495,023, an increase of $83,516, or 5.9%, compared to 2013. True Value's 2014 fiscal year included a 53rd week. On a comparable 52 week basis, revenue was up $67,134, or 4.8% compared to 2013. Comp store revenue increased by $50,482, or 4.1%, primarily due to an increase in the recently expanded farm, ranch, automotive & pet department. Other favorable departments include paint, plumbing, lawn and garden, as well as cold weather and snow-related items in the first quarter of 2014. Retail comp stores sales increased 3.1% as reported by approximately 1,600 members who provide point-of-sale data.

($ in thousands)

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

Gross billings totaled $2,014,840, an increase of $114,822 or 6.0%, as compared to the same period in 2013. On a 52 week comparable basis, gross billings increased $93,857, or 4.9%. The Gross billings increase was primarily due to the reasons discussed above. In addition, direct shipment sales from the vendor to the retailer increased due to a new program with STIHL as well as higher lumber and home department sales. Comp stores sales, on a gross billings basis, increased by 3.7%.

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

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

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

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

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

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

($ in thousands)

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

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

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

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

Liquidity and Capital Resources

Liquidity

As of January 2, 2016, True Value had $3,875 in cash and cash equivalents and $191,204 in available unused borrowing capacity under the revolving credit facility. The Company believes that its cash from operations and existing Bank Facility will provide sufficient liquidity to meet its working capital needs, planned capital expenditures, debt and pension plan funding obligations due to be paid in 2016. The Bank Facility should provide sufficient liquidity for future needs, and is an important part of the Company's overall liquidity. As of January 2, 2016, True Value is not aware of any violations of the terms and conditions of the Bank Facility.

The Company amended its senior revolving credit facility in 2014 to increase the size of the facility to $450,000 and extended the term to December 2019. True Value has borrowed on its revolver in order to fund working capital, capital expenditures, patronage dividend payments and financing to its members for remodels and new stores. In addition, the Company has $6,897 of outstanding in letters of credits as of January 2, 2016. In recent years, the Company has invested heavily in capital expenditures, member financing notes and working capital as part of the strategic plan to provide for Engagement, Growth and Efficiency initiatives.

Another component of True Value's working capital structure is its member notes. As of January 2, 2016, the Company had $126,044 in short and long-term member notes outstanding. These subordinated promissory notes are issued for partial payment of the annual patronage dividend. Subordinated promissory notes are subordinated to indebtedness to banking institutions, trade creditors and other indebtedness of the Company as specified by its Board of Directors. True Value has typically offered the retailers who own subordinated promissory notes that mature in the current year the option to extend the maturity of their notes at a new rate and term. True Value does have the right of offset on these notes, which reduces the retailer's obligation to True Value and accelerates access to annual cash patronage dividends that would otherwise reduce note balances.

True Value had sponsored two noncontributory defined benefit retirement plans that have been frozen since 2008. The defined benefit plan had an unfunded status of $13,413 and $15,899 as of January 2, 2016 and January 3, 2015, respectively. The Company contributed $5,721 and $595 in 2015 and 2014, respectively, to the defined benefit plan. The supplemental retirement plan ("SRP") is an unfunded, unqualified defined benefit plan. Since the SRP is an unfunded plan, there were no plan assets at January 2, 2016 and January 3, 2015. The SRP has a liability of $2,707 and $3,437 as of January 2, 2016 and January 3, 2015, respectively. Finally, True Value participates in a multiemployer pension plan under the terms of a single collective-bargaining agreement that covers certain union-represented employees. In 2014, as part of True Value's long-term strategic plan, the Company decided to exit the Central States pension plan no later than 2018, and therefore has recorded related expenses of $4,944 in fiscal 2014 and $489 in fiscal 2015. In addition to regular plan contributions, True Value may be subject to a surcharge given the plan's current status.

Cash Flows

Operating Activities

True Value used cash for operating activities of $34,645 and $20,417 for 2015 and 2014 respectively, while the Company generated cash of $44,778 from operating activities for 2013. The increase in cash used for operating activities in 2015 compared to 2014 was partially due to the lower net margin in 2015 as a result of the strategic initiative spend; however, non-cash charges for bad debt and inventory helped to mitigate the operating cash flow impact. In both 2015 and 2014, the Company used a significant amount of operating cash to buildup inventory (partially related to several of the company's strategic initiatives) as well as the decision to invest in its retailers through merchandise credits and new loans. In addition, in 2015, much of the inventory increase was in the earlier part of the year and therefore there was not the typical increase in accounts payable that would mitigate the cash flow impact of the increased inventory level. True Value also had bonus payments in 2015 from good performance on its operating metrics in 2014 as well as severance and other benefit payments relating to the outsourcing of its drivers and other employees.

In addition to the above, in 2014, True Value also had a significant increase in the payment terms of its receivables which was partially mitigated by the buildup in accruals relating to the employee items noted previously. However, the timing of payments to vendors was consistent throughout the year and resulted in a typical accounts payable build to correspond with the increased inventory level. In 2013, True Value did not incur the higher level of working capital investment noted in 2014 and 2015.

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

Investing Activities

True Value used cash for investing activities in 2015, 2014 and 2013 of $16,034, $12,168 and $11,205, respectively. Investing activities primarily consist of capital expenditures. In 2015, the increase in cash used for investing activities was predominantly due to investments related to True Value's strategic plan including the *Customer Focus Vision* initiative and the modernization of information technology infrastructure.

Financing Activities

True Value generated cash from its financing activities in 2015 and 2014 of $49,903 and $32,705, respectively, while it used cash for financing activities in 2013 of $32,072. In 2015 and 2014, True Value increased borrowings from its revolving credit facility in the amount of $75,200 and $62,200, respectively, mainly to fund its operating and investing activities as well as to fund the payment of the patronage dividend, and notes and long-term debt. In 2013, True Value used the net cash generated from operating and investing activities as well as increased borrowings from its revolving credit facility for payment of patronage dividends, and notes and long-term debt.

($ in thousands)

Contractual Obligations

In accordance with GAAP, operating leases for the Company's real estate and equipment are not reflected in the Consolidated Balance Sheet. The following table summarizes the contractual cash obligations as of January 2, 2016, including operating leases, and the effect such obligations will have on liquidity and cash flow in future periods.

	2016	2017	2018	2019	2020	Thereafter
Real estate mortgage	$ 1,037	$ 1,109	$ 1,186	$ 1,269	$ 1,357	$ 8,340
Subordinated promissory and subordinated promissory installment notes	13,293	21,862	3,301	21,613	551	65,424
Operating Leases	27,926	26,687	26,723	25,893	25,233	33,465
Other	393	69	-	-	-	-
Net minimum payments	$ 42,649	$ 49,727	$ 31,210	$ 48,775	$ 27,141	$ 107,229

In addition to the above lease obligations, the Company has certain contractual obligations with third party outsource providers. The Company has commitments with a third party for IT infrastructure supported managed services and legacy application management, which is primarily an agreement for rates paid based on use of services. Similarly, the Company has a commitment to a third party to manage and provide transportation services at ten of its RDC locations at agreed upon rates based upon services used at each of the locations. If True Value were to cancel the agreement, the Company would need to reimburse the third party for a portion of the unamortized start-up costs, purchase 70% of the tractors dedicated to True Value at the specific location and reimburse for other employee transition costs.

Critical Accounting Policies

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

- *Accounts and notes receivable, net of allowance for doubtful accounts* – At January 2, 2016, accounts and short-term notes receivable, net of $3,832 in allowance for doubtful accounts, was $246,138; retailer long term notes receivable net of $1,897 in allowance for doubtful accounts was $44,549. True Value determined the allowance based upon its evaluation of a number of factors, primarily aging of receivables, retailer credit information, historical experience, current economic conditions and the ability to offset against unpaid receivables and amounts otherwise due to retailers for stock, notes, interest, and declared and unpaid dividends. While True Value believes it has appropriately considered known or expected outcomes, its retailers' ability to pay their obligations, including those to True Value, could be adversely affected by declining sales of hardware at retail resulting from such factors as the current U.S. economic environment, and intense competition from chain stores, discount stores, home centers and warehouse stores.

- *Vendor Funds* – True Value receives funds from vendors in the normal course of business principally as a result of purchase volumes, sales, early payments and/or promotions of vendors' products. Based on the provisions of the vendor agreements in place, the Company develops accrual rates by estimating the point at which True Value will have completed its performance under the agreement and the amount agreed upon will be earned. Due to the complexity and diversity of the individual vendor agreements, True Value performs analyses and reviews of historical trends throughout the year to ensure the amounts earned are appropriately recorded. Rebates received as a result of attaining defined purchase levels are accrued over the incentive period based on the terms of the arrangement and estimated qualified purchases. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes. Vendor funds are treated as a reduction of inventory cost, unless they represent a reimbursement of specific, incremental and identifiable costs incurred by True Value to sell the vendor's product. A minimal amount of the vendor funds meet the specific, incremental and identifiable criteria. As of January 2, 2016, vendor funds related to unpaid amounts for the rebate programs were included in the vendor and other accounts receivable amount of $39,424.

- *Inventories, net of valuation reserves* – At January 2, 2016, inventories were $387,780, net of $20,829 in valuation reserves, and reflect the reductions from cost necessary to state inventories at the lower of cost or market. The lower of cost or market valuation considers the estimated realizable value in the current economic environment associated with disposing of surplus and/or damaged/obsolete inventories. True Value estimated realizable value based on an analysis of historical trends related to its distressed inventory. This analysis compares current levels of active, new and discontinued inventory items to the prior 12-month actual demand, ages these items based on such demand and then applies historical loss rates to the aged items. In addition, based upon known facts and circumstances, reserves for specific inventory items were made. Also, a review of all inventory items over certain thresholds was performed to ascertain if specific reserves were required. Additional downward valuation adjustments could be required should any of the following events occur: 1) True Value elects to accelerate the rate at which it is consolidating stock keeping units ("SKUs") across its warehouse network; and 2) an unanticipated decline in retail outlets or a significant contraction in True Value's warehouse stock replenishment business for selected product categories. The U.S. economic environment may have a significant impact on these events. Potential additional downward valuation adjustments would also be required by True Value in the event of unanticipated additional excess quantities of finished goods and raw materials and/or from lower disposition values offered by the parties who normally purchase surplus inventories.

- *Goodwill* – Goodwill represents excess costs of acquired businesses over the fair value of the net assets acquired. True Value separates the net assets based on its reporting units: Wholesale and Paint Manufacturing. At January 2, 2016 and January 3, 2015, Goodwill was $78,429 for the Wholesale reporting unit, with no Goodwill associated with its Paint Manufacturing reporting unit.

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

- *Self-Insurance* – The Company is self-insured for medical claims. The Company maintains a deductible for casualty losses such as workers' compensation, automobile, and general liability, including product. These insurance programs are subject to varying levels of deductibles as well as a maximum aggregate per year. Losses are accrued as a liability in the Consolidated Financial Statements. Losses are estimated based upon actuarial assumptions, historical claims data and/or estimates of claims incurred but not reported.

- *Deferred tax assets* – At January 2, 2016, the accompanying Consolidated Balance Sheet reflects $32,011 of deferred tax assets, principally related to reserves, accruals, deferred gain recognition and nonqualified notices of allocation. These deferred tax assets, net of deferred tax liabilities of $5,415, are offset by a full valuation allowance at January 2, 2016. True Value had approximately $8,163 of tax operating loss carry-forwards available to offset future taxable income. In general, such carry-forwards must be utilized within 20 years of incurring the net operating loss. At January 2, 2016, True Value concluded that, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be fully realized due to True Value's minimal taxable earnings after the distribution of the patronage dividend to the retailers, and that a full valuation allowance is required. Deferred tax assets will only be realized to the extent net future earnings, after the distribution of the patronage dividend to the retailers, are retained and after accumulated net operating losses are exhausted by True Value.

- *Benefit plans* – True Value had sponsored two noncontributory defined benefit retirement plans that have been frozen since 2008 (a defined benefit plan and a supplemental retirement plan). As of January 2, 2016, the funded status of the defined benefit plan was a liability of $13,413. Changes in assumptions related to the measurement of funded status could have a material impact on the amount reported. The Company is required to calculate pension expense and liability using actuarial assumptions, including mortality assumptions, a discount rate and long-term asset rate. For 2014 and 2015, the mortality assumptions are based on tables recently published by Society of Actuaries' Retirement Plans Experience Committee. The discount rate was based on an analysis of bond rates with terms that have similar duration to the pension liabilities. The expected return on assets was based on an analysis of expected long-term rates of return on asset classes reflective of True Value's portfolio mix. To the extent that the actual rates, and other demographic assumptions such as turnover and mortality, vary from the assumptions used to determine the present actuarial valuation of these benefits, True Value may have to change its provision for expenses. Assumed discount rates and expected return on assets have a significant effect on the amounts reported for the pension plans. A one-percentage-point increase in assumed discount rates would increase pension expense by $526. A one-percentage-point increase in the expected return on assets would decrease pension expense by $560.

Market Risk

Inflation

The Company does not believe inflation has a material impact on the sales or results of operations. As vendors increase their prices for changes in commodity pricing or other factors, the Company generally adjust prices accordingly to minimize the impact of inflation on gross margin.

Foreign Exchange Rate Risk

True Value conducts business outside the United States for both vendor purchases and member sales. The Company's exposure to foreign currency rate fluctuations is minimal as transactions originate in U.S. dollars.

Customer Credit Risk

True Value is exposed to non-performance by its customers. The Company regularly assesses the credit quality of its accounts and notes receivables in aggregate, and by customer considering aging of receivables, retailer credit information, historical experience, current economic conditions and the ability to offset against unpaid receivables.

RSM

Independent Auditor's Report

RSM US LLP

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of True Value Company and its subsidiaries, which comprise the consolidated balance sheets of as of January 2, 2016 and January 3, 2015, the related consolidated statements of comprehensive income, changes in retailers' equity and cash flows for each of the three years then ended January 2, 2016, January 3, 2015 and December 28, 2013, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of True Value Company and its subsidiaries as of January 2, 2016 and January 3, 2015, and the results of its operations and its cash flows for the three years ended January 2, 2016, January 3, 2015 and December 28, 2013 in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Schaumburg, Illinois
February 21, 2016

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

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

	January 2, 2016	January 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,875	$ 4,651
Accounts and notes receivable, net of allowance for doubtful accounts of $3,832 and $3,623	246,138	244,737
Vendor and other accounts receivables	39,424	36,888
Inventories, net of valuation reserves of $20,829 and $16,248	387,780	362,155
Prepaid expenses	18,774	17,233
Total current assets	695,991	665,664
Long-term assets:		
Property, plant and equipment, net	72,705	67,150
Goodwill	78,429	78,429
Retailer notes receivable, net of allowance for doubtful accounts of $1,897 and $537	44,549	38,400
Other assets	19,138	14,590
Total assets	$ 910,812	$ 864,233
LIABILITIES AND RETAILERS' EQUITY		
Current liabilities:		
Accounts payable	$ 243,731	$ 244,691
Drafts payable	31,899	30,870
Accrued expenses	72,673	78,304
Revolving credit facility	172,800	97,600
Current maturities of long-term debt, retailer notes	13,293	14,189
Current maturities of long-term third-party debt	1,430	1,011
Patronage dividend payable in cash	15,408	18,531
Total current liabilities	551,234	485,196
Long-term liabilities and deferred credits:		
Long-term retailer debt, less current maturities	112,751	115,982
Long-term third-party debt, less current maturities	13,330	14,322
Deferred gain on sale leaseback	16,669	19,447
Pensions	13,103	15,579
Other long-term liabilities	26,692	28,748
Total long-term liabilities and deferred credits	182,545	194,078
Total liabilities and deferred credits	733,779	679,274
Retailers' equity:		
Redeemable Class A voting common stock, $100 par value; 750,000 shares authorized; 232,860 and 235,920 shares issued and fully paid	23,286	23,592
Redeemable qualified Class B nonvoting common stock and paid-in capital, $100 par value; 4,000,000 shares authorized; 1,830,010 and 1,933,908 shares issued and fully paid	184,300	194,689
Redeemable nonqualified Class B nonvoting common stock, $100 par value; 126,898 and 135,198 shares issued and fully paid	12,690	13,520
Deferred patronage	(16,074)	(16,821)
Accumulated deficit	(5,077)	(4,331)
Accumulated other comprehensive loss	(22,092)	(25,690)
Total retailers' equity	177,033	184,959
Total liabilities and retailers' equity	$ 910,812	$ 864,233

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

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

	For the Years Ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Gross billings	$ 2,033,196	$ 2,014,840	$ 1,900,018
Revenue	$ 1,497,228	$ 1,495,023	$ 1,411,507
Cost of revenue	1,291,684	1,271,958	1,194,777
Gross margin	205,544	223,065	216,730
Operating expenses:			
Logistics and manufacturing expenses	65,783	58,758	59,099
Selling, general and administrative expenses	112,890	116,796	96,348
Other income, net	(4,154)	(4,465)	(3,680)
Operating income	31,025	51,976	64,963
Interest expense to retailers	6,131	6,207	5,865
Third-party interest expense	5,817	4,659	3,758
Net margin before income taxes	19,077	41,110	55,340
Income tax expense	35	12	22
Net margin	$ 19,042	$ 41,098	$ 55,318
Other comprehensive income / (loss):			
Pension liability adjustment for deferred actuarial (loss) / gain	3,589	(4,547)	11,722
Post-retirement liability for deferred actuarial (loss)	(163)	(182)	(105)
Other gain / (loss)	172	(283)	9
Comprehensive income	$ 22,640	$ 36,086	$ 66,944

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

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

	For the Years Ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Operating activities:			
Net margin	$ 19,042	$ 41,098	$ 55,318
Adjustments to reconcile net margin to net cash and cash equivalents provided by / (used for) operating activities:			
Depreciation and amortization	20,436	19,124	17,297
Provision to allowance for doubtful accounts	2,988	791	204
Provision for inventory reserves	15,464	11,342	6,513
Loss / (gain) on disposal and sale of assets	200	(6)	80
Amortization of deferred gain on sale leaseback	(2,778)	(2,778)	(2,778)
Changes in operating assets and liabilities:			
Accounts and notes, vendor and other receivables	(36,513)	(75,260)	(39,788)
Inventories	(41,088)	(49,684)	(14,318)
Other current assets	(62)	(1,491)	(94)
Accounts payable	(2,350)	19,877	21,990
Accrued expenses	(11,007)	14,575	2,533
Pension	1,103	2,687	(263)
Other adjustments, net	(80)	(692)	(1,916)
Net cash and cash equivalents (used for) / provided by operating activities	(34,645)	(20,417)	44,778
Investing activities:			
Additions to property, plant & equipment	(17,834)	(13,522)	(12,576)
Proceeds from sale of properties	79	7	19
Proceeds from collection of notes	1,721	1,347	1,352
Net cash and cash equivalents used for investing activities	(16,034)	(12,168)	(11,205)
Financing activities:			
Payment of patronage dividend	(16,970)	(17,824)	(20,515)
Payment of notes, long-term debt and lease obligations	(8,891)	(9,470)	(23,113)
Increase in drafts payable	1,029	1,327	5,391
Increase in revolving credit facility, net	75,200	62,200	6,800
Payment of debt issuance costs	-	(3,125)	-
Proceeds from sale of Redeemable Class A common stock and subscriptions receivable	1,008	1,032	768
Purchase of Class A and Class B common stock	(1,473)	(1,435)	(1,403)
Net cash and cash equivalents provided by / (used for) financing activities	49,903	32,705	(32,072)
Net (decrease) / increase in cash and cash equivalents	(776)	120	1,501
Cash and cash equivalents at beginning of year	4,651	4,531	3,030
Cash and cash equivalents at end of year	$ 3,875	$ 4,651	$ 4,531

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

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

	Redeemable Common Stock							
	Class A		Class B					
	# of Shares	Amount	# of Shares	Amount	Deferred Patronage	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Retailers' Equity
Balances at and for the year ended December 29, 2012	**243,240**	**$ 24,324**	**1,845,784**	**$ 185,877**	**$ (18,317)**	**$ (3,885)**	**$ (32,304)**	**$ 155,695**
Net margin	-	-	-	-	-	55,318	-	55,318
Reclass stock presented for redemptions to liabilities	(11,520)	(1,290)	(78,171)	(7,817)	-	7	-	(9,100)
Amortization of deferred patronage	-	-	-	-	748	(748)	-	-
Patronage dividend	-	-	85,253	8,525	-	(54,277)	-	(45,752)
Class A stock purchases	6,300	768	-	-	-	-	-	768
Other comprehensive income, net	-	-	-	-	-	-	11,626	11,626
Balances at and for the year ended December 28, 2013	**238,020**	**23,802**	**1,852,866**	**186,585**	**(17,569)**	**(3,585)**	**(20,678)**	**168,555**
Net margin	-	-	-	-	-	41,098	-	41,098
Reclass stock presented for redemptions to liabilities	(13,020)	(1,242)	(73,876)	(7,387)	-	-	-	(8,629)
Reclass of Nonvoting Class B stock from liabilities	-	-	135,198	13,520	-	-	-	13,520
Amortization of deferred patronage	-	-	-	-	748	(748)	-	-
Patronage dividend	-	-	154,918	15,491	-	(41,096)	-	(25,605)
Class A stock purchases	10,920	1,032	-	-	-	-	-	1,032
Other comprehensive loss, net	-	-	-	-	-	-	(5,012)	(5,012)
Balances at and for the year ended January 3, 2015	**235,920**	**23,592**	**2,069,106**	**208,209**	**(16,821)**	**(4,331)**	**(25,690)**	**184,959**
Net margin	-	-	-	-	-	19,042	-	19,042
Reclass stock presented for redemptions to liabilities	(13,320)	(1,314)	(112,198)	(11,219)	-	-	-	(12,533)
Amortization of deferred patronage	-	-	-	-	747	(748)	-	(1)
Patronage dividend	-	-	-	-	-	(19,040)	-	(19,040)
Class A stock purchases	10,260	1,008	-	-	-	-	-	1,008
Other comprehensive income, net	-	-	-	-	-	-	3,598	3,598
Balances at and for the year ended January 2, 2016	**232,860**	**23,286**	**1,956,908**	**196,990**	**(16,074)**	**(5,077)**	**(22,092)**	**177,033**

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

1. Description of Business and Accounting Policies

Principal Business Activity

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

Consolidation

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

Reporting Year

True Value’s fiscal year ends the Saturday closest to December 31. Fiscal years 2015, 2014 and 2013 ended on January 2, 2016, January 3, 2015, and December 28, 2013, respectively. Fiscal years 2015 and 2013 contained 52 weeks; fiscal year 2014 contained 53 weeks.

Use of Estimates

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

Cash Equivalents

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

Allowance for Doubtful Accounts

The allowance for doubtful accounts is determined principally on the basis of past collection experience applied to ongoing evaluations of True Value’s accounts and notes receivables, and the risks of repayment after applying set-off rights for any payment obligations owed by True Value to the retailer. The January 2, 2016 allowance was $5,729 compared to the allowance as of January 3, 2015 of $4,160. True Value considers accounts and notes receivable past due if amounts remain unpaid past their due date, and writes off uncollectible receivables after applying set-off rights and exhausting all collection efforts. True Value considers a loan to be impaired when, based on current information and events based on historical losses and current economic conditions, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Vendor Funds

True Value receives funds from vendors in the normal course of business principally as a result of purchase volumes, sales, early payments and/or promotions of vendors’ products. Based on the provisions of the vendor agreements in place, the Company develops accrual rates by estimating the point at which True Value will have completed its performance under the agreement and the amount agreed upon will be earned. Due to the complexity and diversity of the individual vendor agreements, True Value performs analyses and reviews of historical trends throughout the year to ensure the amounts earned are appropriately recorded. Rebates received as a result of attaining defined purchase levels are accrued over the incentive period based on the terms of the arrangement and estimated qualified purchases. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes. Vendor funds are treated as a reduction of inventory cost, unless they represent a reimbursement of specific, incremental and identifiable costs incurred by True Value to sell the vendor's product. A minimal amount of the vendor funds meet the specific, incremental and identifiable criteria. As of January 2, 2016 and January 3, 2015, vendor funds related to unpaid amounts for the rebate programs were included in the vendor and other accounts receivable of $39,424 and $36,888, respectively.

Inventories

Merchandise inventory is stated at the lower of cost, determined on the first-in, first-out basis, or market value. Manufactured inventory is stated at the lower of cost, determined on a standard cost method that approximates the first-in, first-out basis, or market value. The lower of cost or market value considers the estimated realizable value in the current economic environment associated with disposing of surplus and/or damaged/obsolete inventories. True Value's ending 2015 inventory valuation reserve was $20,829, an increase of $4,581 from the ending 2014 reserve of $16,248. True Value calculated the estimated realizable value based on an analysis of historical trends related to its distressed inventory. In its analysis, True Value considers historical data on its ability to return inventory to suppliers, to transfer inventory to other distribution centers, to sell inventory to retailers through a price reduction process and to sell remaining inventory to liquidators. The cost of inventory also includes direct and indirect costs (such as logistics, manufacturing, freight-in and support costs) incurred to bring inventory to its existing locations for resale as well as vendor rebates. These direct and indirect costs and vendor rebates are treated as net product costs, classified in inventory and subsequently recorded as cost of revenue as the product is sold.

Property, Plant and Equipment

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

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

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

Goodwill

Goodwill represents excess costs of acquired businesses over the fair value of the net assets acquired. True Value separates net assets based on its reporting units: Wholesale and Paint Manufacturing. At January 2, 2016 and January 3, 2015, Goodwill was $78,429 for the Wholesale reporting unit, with no Goodwill associated with its Paint Manufacturing reporting unit.

True Value has not adopted the private company alternative accounting method, which among other things, allows for goodwill to be amortized over 10 years. Instead, True Value follows other generally accepted accounting principles ("GAAP") under which goodwill is not amortized but tested annually for impairment. It is True Value's policy to perform impairment testing annually at each fiscal year-end date using the qualitative method, unless significant events necessitate a more frequent test. In 2014 and 2015, the Company used the quantitative method to evaluate goodwill for impairment using a two-step approach. Step 1 of the goodwill valuation requires the comparison of the fair market value to the carrying value, including goodwill, for each reporting unit. To determine the fair market value, True Value uses primarily an income approach (discounted cash flows). The fair market value calculation requires considerable management judgment including assumptions and estimates regarding future profitability, cash flow, business and operating plans of its reporting units, discount rates, and long-term sales growth,. If the fair market value exceeds the carrying value of the reporting unit, then no further work is required. If the carrying value exceeds the fair market value, then there is a potential impairment and Step 2 is required. Step 2 requires the calculation of the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets and comparing it to the fair value of the reporting unit. If the implied fair value of the goodwill is less than the carrying value of goodwill, then True Value would recognize an impairment loss in the period the impairment occurred equal to the difference. At January 2, 2016, True Value was only required to do Step 1 testing, and has concluded there was no impairment of goodwill. As part of the testing, True Value conducted sensitivity analysis on the discount rate and long-term revenue growth rates. The discount rate could increase by 2.0% of the rate utilized or the long-term revenue growth rate could decline to zero growth rate, and the Wholesale reporting unit would still have fair market value greater than carrying value.

($ in thousands)

Accumulated other comprehensive loss

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

	January 2, 2016	January 3, 2015
Pension	$ 23,149	$ 26,738
Post retirement	(1,146)	(1,309)
Other	89	261
	$ 22,092	$ 25,690

Revenue Recognition

True Value's policy on items sold through its distribution network is to recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured. Product revenue is recognized when title and risk of loss have transferred to the customer, which is upon delivery of products from the warehouse. Provisions for discounts, rebates and other cash consideration given to customers, and returns are provided for at the time the related sales are recorded and are reflected as a reduction of sales. Certain promoted items are sold with the right of return; True Value has established a reserve in anticipation of these estimated returns. For items sold vendor direct to the retailer, True Value recognizes the net revenue (the profit from the sale, not the full price of the product) when True Value receives the invoice from the vendor. Gross Billings for vendor direct sales were $558,687, $541,159 and $508,748 for 2015, 2014 and 2013, respectively. (Gross Billings for vendor direct sales represents the billings from the sale of the product prior to reducing it to the net profit.)

Service revenue is comprised of advertising and reunions, and transportation which amounted to $49,696 and $60,506 for 2015, respectively, $50,025 and $61,709 for 2014, respectively, and $49,943 and $58,624 for 2013, respectively. Amounts billed to retailers for advertising are included in Revenue and recognized when the underlying advertisement is run or when the related circulars are dropped. Amounts billed to vendors for Reunions are included in Revenue and are recognized in the months the Reunions are held. Amounts billed to retailers for shipping and handling costs are included in Revenue and are recognized when the services are provided.

Advertising Expenses

Advertising costs such as national media and circulars are expensed in the period the advertising takes place. Such costs amounted to $44,420, $34,094, and $38,309 in 2015, 2014 and 2013, respectively, and are included in Cost of revenue.

Research and Development Costs

Research and development costs related to True Value's manufacturing operations are expensed as incurred. Such costs, which mainly include labor and related costs, amounted to $1,337, $1,267, and $1,266 in 2015, 2014 and 2013, 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.

Self-Insurance

The Company is self-insured for medical claims. The Company maintains a deductible for casualty losses such as workers' compensation, automobile and general liability, including product. These insurance programs are subject to varying levels of deductibles as well as a maximum aggregate per year. Losses are accrued as a liability in the Consolidated Financial Statements. Losses are estimated based upon actuarial assumptions, historical claims data and/or estimates of claims incurred but not reported.

Income Taxes

Deferred tax assets and liabilities are determined based on cumulative temporary differences between the amounts shown on the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. At January 2, 2016 and January 3, 2015, True Value concluded that, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be fully realized due to True Value's minimal taxable earnings after the distribution of the patronage dividend to the retailers, and that a full valuation allowance is required. Deferred tax assets will only be realized to the extent net future earnings, after the distribution of the patronage dividend to the retailers, are retained and after accumulated net operating losses are exhausted by True Value.

True Value follows the provisions of the Financial Accounting Standards Board (FASB) guidance related to accounting for uncertainty in income taxes. True Value has not recorded a reserve for any tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. When and if applicable, potential interest and penalty expenses are accrued as incurred and classified in selling, general and administrative expenses in the statement of income. As of January 2, 2016 and January 3, 2015, True Value has no liability for unrecognized tax benefits.

True Value and its subsidiaries file income tax returns in the United States as well as all states, many local U.S. jurisdictions and China. True Value is no longer open to audit for any U.S. federal, state, local or non-U.S. income tax jurisdiction for years 2010 and prior. True Value is still subject to state audits in seven states for its tax year 2011 and remains open to audit for most jurisdictions for years 2012 through current.

Per Share Information

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

Pension and other Postretirement Benefits

True Value had sponsored two noncontributory defined benefit retirement plans that have been frozen since 2008 (a defined benefit plan and a supplemental retirement plan). As of January 2, 2016 and January 3, 2015, the funded status of the pension plan was a liability of $13,413 and $15,899. Changes in assumptions related to the measurement of funded status could have a material impact on the amount reported. The Company is required to calculate pension expense and liability using actuarial assumptions, including mortality assumptions, a discount rate and long-term asset rate. For 2014 and 2015, the mortality assumptions are based on tables recently published by Society of Actuaries' Retirement Plans Experience Committee. The discount rate was based on an analysis of bond rates with terms that have similar duration to the pension liabilities. The expected return on assets was based on an analysis of expected long-term rates of return on asset classes reflective of True Value's portfolio mix. To the extent that the actual rates, and other demographic assumptions such as turnover and mortality, vary from the assumptions used to determine the present actuarial valuation of these benefits, True Value may have to change its provision for expenses. Assumed discount rates and expected return on assets have a significant effect on the amounts reported for the pension plans. A one-percentage-point increase in assumed discount rates would increase pension expense by $526. A one-percentage-point increase in the expected return on assets would decrease pension expense by $560.

The supplemental retirement plan (“SRP”), which is an unfunded unqualified defined benefit plan. Since the SRP is an unfunded plan, there were no plan assets at January 2, 2016 and January 3, 2015. The unfunded status of the SRP was a liability of $2,707 and $3,437 as of January 2, 2016 and January 3, 2015, respectively. In addition, the Company has a liability for postretirement benefits of $763 as of January 2, 2016.

The Company also participates in a multi-employer pension plan under the terms of a single collective-bargaining agreement that cover certain union-represented employees. The benefits are paid from assets held in trust for that purposes. As part of True Value’s long-term strategic plan, the Company has decided to exit the Central States pension plan no later than 2018 and therefore has recorded related expenses of $489 and $4,944 for 2015 and 2014, respectively, for a total liability of $5,433.

Fair Value of Financial Instruments

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

Concentration of Credit Risk

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

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

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. It establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics, and expands and improves disclosures about revenue. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective, and permits the use of either a full retrospective approach reflecting the application of the standard in each prior reporting period or a retrospective with the cumulative effect recognized at the date of adoption. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 by one year. The new effective date is for annual reporting periods beginning after December 15, 2018 and interim periods within the annual periods beginning after December 15, 2019. Management is in the process of assessing the impact of ASU 2014-09 on the Company's financial statements.

($ in thousands)

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2015-04, Compensation – Retirement Benefits (Topic 715), permitting those entities that do not have fiscal year-ends that coincide with a month-end to measure the defined benefit plan assets and obligations using the month-end that is closest to the entity’s fiscal year-end and apply that consistently from year to year. The updated standard will be effective for reporting years beginning after December 15, 2015, including interim periods within those fiscal years.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330), requiring an entity that currently does not measure inventory using the last-in, first-out (LIFO) or the retail inventory method to begin measuring inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. The updated standard will be effective for reporting years beginning after December 15, 2016, including interim periods within those fiscal years.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), requiring an entity to classify deferred tax liabilities and assets as noncurrent in a classified statement of financial position. This update eliminates the requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this update. The updated standard will be effective for financial statements issued for the annual periods beginning after December 15, 2016, including interim periods within those fiscal years.

Early application is permitted for all the above standards. The Company is currently evaluating the impact of these standards but does not anticipate these amendments having a material impact on True Value’s Annual and Quarterly Reports when these standards become effective.

2. Accounts and Notes Receivable

True Value has various programs which provide loans to retailers at terms up to 10 years. The loan programs primarily are to open new stores, make store expansions, remodel existing stores into the Destination True Value (“DTV”) format or upgrade equipment. The loans are generally repaid through the retailers’ non-Class B common stock portion of the annual patronage dividend, as well as promissory notes principal and interest due to the retailer at the time of the loan, cash payments and/or program rebates. Generally, interest income is accrued at the stated rate of the loan. The loans may be interest-free or bear interest at various rates, depending on the loan program, market rates or the retailers’ credit quality. For loans issued at below market interest rates, True Value discounts the loan amounts using market rates at the time of the loan. Interest income is imputed and recorded using the effective interest method. At January 2, 2016, True Value had $58,095 in loans outstanding at an average interest rate of 5.31% and $6,951 in unamortized discount remaining. At January 3, 2015, True Value had $52,203 in loans outstanding discounted at an average interest rate of 5.34% and $8,264 in unamortized discount remaining. During 2015 and 2014, $1,695 and $1,650, respectively, of discount was recognized as a reduction of revenue and $2,148 and $2,276, respectively, in imputed interest income was recognized. The loan contracts under which substantially all notes receivable are issued generally require these loans to be repaid by the application of the non-Class B stock portion of the annual patronage distribution. As a result, True Value reduces the note receivable balance in the consolidated balance sheets by the amount of the non-Class B portion of the annual patronage distribution that it expects to apply against outstanding notes receivable. Notes receivable consist of the following components:

	January 2, 2016	January 3, 2015
Notes receivable, gross	$ 66,025	$ 55,821
Less estimated patronage applications	3,632	3,733
Net	62,393	52,088
Less current portion	15,947	13,151
Less allowance for doubtful accounts	1,897	537
Notes receivable, net	$ 44,549	$ 38,400

($ in thousands)

True Value applies a consistent practice of establishing an allowance for notes that it feels may become uncollectible by monitoring the financial strength of its retailers. The collectability of certain notes is evaluated on an individual basis while the remaining notes are evaluated on a collective basis. Interest continues to accrue on notes that are impaired. The breakdown of notes evaluated individually versus notes evaluated collectively at January 2, 2016 and January 3, 2015 was as follows:

	January 2, 2016	January 3, 2015
Notes receivable		
Ending balance individually evaluated for impairment	$ 12,036	$ 4,410
Ending balance collectively evaluated with no impairment	53,989	51,411
Ending principal balance	$ 66,025	$ 55,821

True Value has evaluated the collectability of the accounts and notes receivable and has established an allowance for doubtful accounts of $5,729 and $4,160 at January 2, 2016 and January 3, 2015, respectively. The Company records the allowance for doubtful accounts based on evaluation of a number of factors, primarily aging of receivables, historical experiences, retailer credit information, the current economic environment and the offsetting amounts due to retailers for stock, notes, interest and declared and unpaid patronage distributions. For accounts and notes receivable identified as potentially uncollectible, the Company further evaluates the credit risk related to those retailers as low, medium or high and sets increasing allowance levels against the higher risk receivables. The credit risk is assessed from low to high depending on a number of factors, primarily the degree of retailer's deterioration in financial strength and credit information, length of aging period, and duration of negative trend experiences. The changes to the accounts and notes receivable allowance for doubtful accounts for 2015 and 2014 were as follows:

	January 2, 2016	January 3, 2015
Allowance for doubtful accounts		
Beginning balance	$ 4,160	$ 3,670
Provision	2,988	791
Net write-off	(1,419)	(301)
Ending Balance	5,729	4,160
Reclass to current	(3,832)	(3,623)
Long term allowance for doubtful accounts	$ 1,897	$ 537

($ in thousands)

The degree of credit risk assessed on accounts and notes receivables and the related allowance for doubtful accounts for 2015 and 2014 were as follows:

	Accounts and Notes Receivable, Gross	Allowance for Doubtful Accounts
January 2, 2016		
Low	$ 289,336	$ 1,125
Medium	3,468	1,002
High	3,612	3,602
Total	$ 296,416	$ 5,729
January 3, 2015		
Low	$ 279,053	$ 496
Medium	5,246	1,055
High	2,998	2,609
Total	$ 287,297	$ 4,160

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

3. Inventories

Inventories consisted of the following at:

	January 2, 2016	January 3, 2015
Manufacturing inventories:		
Raw materials	$ 3,586	$ 4,174
Work-in-process and finished goods	18,521	18,940
Manufacturing inventory reserves	(1,404)	(1,074)
	20,703	22,040
Merchandise inventories:		
Warehouse inventory	386,502	355,289
Merchandise inventory reserves	(19,425)	(15,174)
	367,077	340,115
	$ 387,780	$ 362,155

The amount of direct and indirect acquisition costs included in ending inventory was $25,085 and $23,403 at January 2, 2016 and January 3, 2015, respectively.

($ in thousands)

4. Property, Plant & Equipment

Property, Plant & Equipment consisted of the following at:

	January 2, 2016	January 3, 2015
Buildings and improvements	$ 99,318	$ 95,430
Machinery and warehouse equipment	72,427	71,220
Office and computer equipment, and software	159,043	144,577
Transportation equipment	17,651	18,120
	348,439	329,347
Less: accumulated depreciation	(278,074)	(264,537)
	70,365	64,810
Land	2,340	2,340
	$ 72,705	$ 67,150

Depreciation expense for 2015, 2014 and 2013, was $14,845, $14,591 and $13,689, respectively.

Software development costs incurred subsequent to establishing technological feasibility of the software products are capitalized in accordance with FASB Accounting Standards Codification 985-20, “Costs of Computer Software to be Sold, Leased, or Marketed.” Capitalized costs are amortized on a straight-line basis over the economic lives of the related products. Amortization expense was $179, $1,320 and $1,106 for 2015, 2014 and 2013, respectively and was included in depreciation expense. The unamortized balance of capitalized software to be sold, leased or marketed included in Property, plant & equipment was $137 and $316 at January 2, 2016 and January 3, 2015, respectively.

Consistent with ASC 350 “Goodwill and Other, Internal-Use Software”, True Value has capitalized the costs incurred in the development phase of various software used internally. Capitalized costs are amortized on a straight-line basis over the expected useful life of the related software. Amortization expense was $5,372, $4,550 and $4,071for 2015, 2014 and 2013, respectively and was included in depreciation expense. The unamortized balance of capitalized software to be used for internal purposes included in Property, Plant & Equipment was $14,125 and $9,519 at the end of 2015 and 2014, respectively.

5. Accrued Expenses

Accrued expenses consisted of the following at:

	January 2, 2016	January 3, 2015
Payroll and related taxes and benefits	$ 21,450	$ 35,409
Unearned revenue	8,868	8,900
Warehouse & Transportation	6,490	5,981
Pension withdrawal	5,433	4,944
Advertising	6,845	4,703
Liability insurance	3,937	4,526
Other	19,650	13,841
	$ 72,673	$ 78,304

($ in thousands)

6. Debt Arrangements

Long-term debt consisted of the following at:

	January 2, 2016	January 3, 2015
Real estate mortgage	$ 14,298	$ 15,269
Other	462	64
Total third-party debt	14,760	15,333
Subordinated promissory and subordinated promissory installment notes	126,044	130,171
	140,804	145,504
Less: amounts due within one year	(14,723)	(15,200)
	$ 126,081	$ 130,304

The weighted average of stated interest rates on total debt was 3.36% and 3.83% as of January 2, 2016 and January 3, 2015, respectively.

Bank Facility

True Value has a five-year $450,000 senior secured revolving credit facility ("Bank Facility") that matures in December 2019. The credit line is limited to the lower of $450,000 or the monthly collateral value of a majority of True Value's assets. True Value's availability as of January 2, 2016 and January 3, 2015, was $191,204 and $239,318, respectively, after taking into account outstanding letters of credit.

At January 2, 2016 and January 3, 2015, True Value had $172,800 and $97,600 in revolving credit loans, respectively. As of January 2, 2016 and January 3, 2015, True Value's average year-to-date interest rate based on a blend of London Interbank Offering Rates ("LIBOR") and the prime interest rate charged for borrowings under the Bank Facility were 1.8% and 2.2% for 2015 and 2014, respectively. The average year-to-date fees charged for use of the Bank Facility was 0.2% for both 2015 and 2014.

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. As of January 2, 2016, True Value is not aware of any violations of the terms and conditions of the Bank Facility.

Mortgage Transaction

True Value has a mortgage on its Manchester, New Hampshire, distribution center (the "Mortgage") with a balance at January 2, 2016 of $14,298 and at January 3, 2015 of $15,269. The Mortgage is a 20-year fully amortizing loan at a fixed rate of 6.74% with a maturity date of January 1, 2026.

Subordinated Promissory and Subordinated Promissory Installment Notes

Subordinated promissory notes are issued from time to time for partial payment of the annual patronage dividend. Subordinated promissory notes are subordinated to indebtedness to banking institutions, trade creditors and other indebtedness of True Value as specified by its Board of Directors. True Value has typically offered the retailers who own the subordinated promissory notes with a scheduled maturity in the current year, the option to extend the maturity of their notes at a new rate and term. In 2015, notes maturing in June and December were extended for an additional six months at rates of 2.0% and approximately 93% and 90%, respectively, of the maturing note values were renewed. In 2014, notes maturing in June and December were extended for an additional six months at rates of 2.5% and approximately 91% and 92%, respectively, of the maturing note values were renewed. True Value has not determined if it will offer retailers with subordinated promissory notes maturing after December 2015 a renewal option or redemption at maturity.

($ in thousands)

Subordinated promissory installment notes are issued in payment of the redemption of qualified Class B common stock upon termination of membership in the cooperative.

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

	January 2, 2016	January 3, 2015
Subordinated promissory notes at interest rates from 2.00% to 5.50%, maturing from 2015 to 2024	$ 108,786	$ 111,379
Accrued dividend notes liability	-	3,341
Subordinated promissory installment notes at interest rates from 1.76% to 2.72%, maturing from 2015 to 2019	14,500	13,933
Accrued stock redemption liability	2,758	1,518
	126,044	130,171
Less: amounts due within one year	(13,293)	(14,189)
	$ 112,751	$ 115,982

Accrued dividend notes liability is subordinated promissory notes that are issued as part of the settlement of the patronage dividend for that fiscal year. For fiscal 2015, 100% of the patronage dividend will be paid out in cash and therefore no subordinated promissory notes will be issued with the distribution of the patronage dividend in 2016. For fiscal 2014, the subordinated promissory notes that were issued with the distribution of the patronage dividend in 2015, bear an interest rate of 5.5% and mature in 2024.

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

Principal payment schedule for long-term debt:

	2016	2017	2018	2019	2020	Thereafter
Real estate mortgage	$ 1,037	$ 1,109	$ 1,186	$ 1,269	$ 1,357	$ 8,340
Subordinated promissory and subordinated promissory installment notes	13,293	21,862	3,301	21,613	551	65,424
Other	393	69	-	-	-	-
Net minimum payments	$ 14,723	$ 23,040	$ 4,487	$ 22,882	$ 1,908	$ 73,764

($ in thousands)

7. Lease Commitments

True Value is a lessee of distribution centers, office space, and computer, manufacturing and transportation equipment under operating leases. The following is a schedule of future minimum lease payments under long-term non-cancelable operating leases (including sale leasebacks) as of January 2, 2016.

	Operating
2016	$ 27,926
2017	26,687
2018	26,723
2019	25,893
2020	25,233
Thereafter	33,465
Net minimum payments	$ 165,927

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

Rent expense under operating leases (reduced by sublease rentals) was $33,299, $31,567 and $31,116 for the years ended January 2, 2016, January 3, 2015 and December 28, 2013, respectively. Long-term deferred rent of $17,411 and $18,747 at January 2, 2016 and January 3, 2015, respectively, was included in Other long-term liabilities.

Sale Leaseback Transaction

In 2002, True Value sold seven of its distribution centers to unrelated third parties and concurrently agreed to lease the distribution centers for a period of 20 years. The transaction was recorded as a real property sale and as ongoing operating leases in True Value's financial statements. The resulting deferred gain was recorded in the Consolidated Balance Sheet in accrued expenses and deferred gain on sale leaseback and is being amortized to income on a straight-line basis over the initial 20-year lease term. As of January 2, 2016 and January 3, 2015, the balance of the deferred gain was $19,447 and $22,225, respectively. True Value has the right to extend each lease independently of the other properties for two additional periods of approximately 10 years each. True Value has the right to assign the lease without the landlord's prior written consent, but subject to certain conditions described in the leases. Provided that True Value assigns the rent to the landlord, True Value may sublet all or any part of any property without the landlord's consent.

8. Retailers' Equity

Capitalization

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

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

True Value has issued Redeemable Class B nonvoting common stock that are "nonqualified written notices of allocation" (the "Redeemable nonqualified Class B nonvoting common stock") as part of the 1997 and 1998 patronage dividends. Amounts issued and outstanding are classified in Retailers' equity in the Consolidated Balance Sheet as Redeemable nonqualified Class B nonvoting common stock. These shares are taxable to the retailer upon redemption.

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

Capital Stock Redemption

Either True Value or the retailer, upon 60 days' written notice, may terminate membership without cause. In the event membership is terminated, True Value undertakes to purchase, and the retailer is required to sell to True Value, all of the retailer's Redeemable Class A voting common stock and Redeemable Class B nonvoting common stock at par value. In accordance with True Value's By-Laws, payment for the Redeemable Class A voting common stock and Redeemable nonqualified Class B nonvoting common stock has historically been in cash at the time of redemption. In accordance with True Value's By-Laws, True Value redeems former retailers' Redeemable qualified Class B nonvoting common stock in the form of a subordinated promissory installment note. The subordinated promissory installment notes are payable in five equal annual installments and pay interest annually at a fixed rate. The interest rate on subordinated promissory installment notes created during the year is determined annually on the first business day of the year based on the five-year U.S. Treasury bill rate plus 1.0%. For notes issued in 2014 and 2015 the rate was 2.72% and 2.61%, respectively, and for 2016 the rate will be 2.73%. In accordance with True Value's By-Laws, True Value first reduces its aggregate stock redemption obligation payable in both cash or subordinated promissory installment note by its right to legally offset any amounts the former retailers may owe True Value, including accounts and notes receivable and/or accumulated deficit.

9. Patronage Dividend

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

Per standing resolution of the Board of Directors, 5% of net patronage source income is retained as a reasonable annual reserve to primarily reduce the accumulated deficit account. For the 2014 patronage dividend that was paid in 2015, the Board of Directors authorized an additional 1.0% over the base 5% of the net patronage source income, as a reasonable reserve, to reduce the accumulated deficit account. For the 2015 patronage dividend that will be paid in

2016, the Board of Directors authorized an additional 5.7% over the base 5.0% of the net patronage source income, as a reasonable reserve, in order to pay out no more than the consolidated net margin realized.

True Value's By-Laws and the Internal Revenue Service (the "IRS") require that the payment of at least 20% of patronage dividends be in cash. However, True Value's policy is to pay 30% of the patronage dividend in cash. As a part of True Value's long-term strategic plan, the Board of Directors authorized a 50% cash payment of the 2014 patronage dividend and a 100% cash payment of the 2015 patronage dividend. The authorization of these cash percentages, prior to any application of set-off rights, makes the cash portion the patronage dividend and the cash flow to True Value's retailers fairly consistent with prior years' cash amounts, in spite of the strategic plan related investments and expenses. The cash portion related to 2015 patronage dividend before the application of set-off rights will be approximately $19,040 compared to 2014 of $22,264.

Total patronage dividends related to the year ended January 2, 2016, will be $19,040. After applying set-off rights to retailers with outstanding loans or payments owed, True Value will pay $15,408 of the dividend in cash. Patronage dividends of $41,096 related to the year ended January 3, 2015, were paid in March 2015 and patronage dividends of $54,277 related to the year ended December 28, 2013, were paid in March 2014; approximately 50% of which was paid in cash prior to any application of set-off rights for 2014 and approximately 40% of which was paid in cash prior to any application of set-off rights for 2013. True Value paid the remainder through the issuance of True Value's Redeemable qualified Class B nonvoting common stock and subordinated promissory notes.

10. Commitments and Contingencies

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

In addition to lease obligations, the Company has certain contractual obligations with third party outsource providers. The Company has commitments with a third party for IT infrastructure supported managed services and legacy application management, which is primarily an agreement for rates paid based on use of services. Similarly, the Company has a commitment to a third party to manage and provide transportation services at ten of its RDC locations at agreed upon rates based upon services used at each of the locations. If True Value were to cancel the agreement, the Company would need to reimburse the third party for a portion of the unamortized start-up costs, purchase 70% of the tractors dedicated to True Value at the specific location and reimburse for other employee transition costs.

Other Guarantees

In the normal course of business, True Value enters into standby letters of credit that could become contractual obligations. These letters of credit are generally issued to insurance companies with expiration terms of less than one year. As of January 2, 2016, True Value had outstanding letters of credit in the amount of $6,897.

($ in thousands)

11. Income Taxes

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

	January 2, 2016	January 3, 2015	December 28, 2013
Current:			
Federal	$ -	$ -	$ -
State	35	12	22
Total current	35	12	22
Deferred:			
Federal	-	-	-
State	-	-	-
Total deferred	-	-	-
	$ 35	$ 12	$ 22

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

	January 2, 2016	January 3, 2015	December 28, 2013
Tax at statutory rate	$ 6,715	$ 14,451	$ 19,369
Effects of:			
Patronage dividend	(6,926)	(14,646)	(18,997)
State income taxes, net of federal benefit	23	8	14
Decrease in valuation allowance	(13)	(33)	(578)
Other, net	236	232	214
	$ 35	$ 12	$ 22

Deferred income taxes reflect the net tax effects to True Value of its net operating loss carry-forwards, which expire in years through 2034, alternative minimum tax credit carry-forwards, which do not expire, nonqualified notices of allocations, which are deductible when redeemed and do not expire, and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The deferred tax effect of the net operating loss carryforward was increased in 2015 by $2,041.

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

($ in thousands)

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

	January 2, 2016	January 3, 2015
Deferred tax assets:		
Net operating loss carryforwards	$ 2,924	$ 883
AMT credit carryforward	541	541
Nonqualified notices of allocation	5,076	5,408
Vacation pay	1,976	2,225
Deferred gain	7,779	8,890
Severance and restructuring costs	1,444	2,118
Book depreciation in excess of tax depreciation	-	1,480
Reserves and accruals	5,480	3,649
Rent expense	1,818	2,103
Inventory capitalization	-	747
Bad debt expense	2,292	1,664
Other	2,681	2,415
Total deferred tax assets	32,011	32,123
Valuation allowance for deferred tax assets	(26,596)	(27,988)
Net deferred tax assets	5,415	4,135
Deferred tax liabilities:		
Tax depreciation in excess of book	2,456	-
Inventory capitalization	352	-
Contributions to fund retirement plans	1,576	2,211
Other	1,031	1,924
Net deferred tax liabilities	5,415	4,135
Net deferred tax assets	$ -	$ -

12. Supplemental Cash Flow Information

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

	January 2, 2016	January 3, 2015	December 28, 2013
Distribution of annual patronage dividend:			
Patronage dividend payable in cash	$ 15,408	$ 18,531	$ 19,442
Redemption of retail growth notes	3,632	3,733	5,512
Cash Portion	19,040	22,264	24,954
Issuance of subordinated promissory notes	-	3,341	20,798
Issuance of Redeemable Class B nonvoting common stock	-	15,491	8,525
Total Patronage Dividend	$ 19,040	$ 41,096	$ 54,277

True Value may set off its obligation to make payments to retailers for redeemable stock, notes, interest or declared and unpaid dividends against any obligation owed by the retailer to True Value. True Value classifies stock redemption requests that had not fully completed the redemption process in Liabilities. True Value exercised its set-off rights on stock redemptions in 2015 and 2014 of $12,533 and $9,275, respectively, against obligation owed by the retailer to True Value of $1,805 and $1,462. The remaining amount due to retailers was partially satisfied with subordinated promissory installment notes of $9,255 and $6,113 in 2015 and 2014, respectively.

True Value exercised its set-off rights with retailer accounts receivable and retail growth program notes when True Value retailer notes, interest and patronage dividend payments came due. True Value in 2015, 2014 and 2013, set off $9,749, $8,862 and $11,060, respectively, of notes, interest and cash payments due to retailers against amounts due from retailers for accounts and notes receivable.

True Value has typically offered the retailers who own subordinated promissory notes that mature in the current year, the option to extend the maturity of their notes at a new rate and term. In 2015, 2014 and 2013, True Value extended subordinated promissory notes, at the option of the retailer, in the amounts of $6,827, $8,319 and $10,026, respectively. In addition, in 2014, and 2013, True Value set-off $1,611 and $6,176, respectively, of subordinated promissory notes against note receivables for retailers that had loans outstanding related to its DTV loan programs. The offset reduced retailers' obligation to True Value and accelerates access to annual cash patronage dividends that would otherwise go to reduce note balances.

True Value had noncash financing activities related to True Value's programs to provide interest free or low interest bearing loans to retailers to open new stores, make store expansions or remodel stores. The loans are for periods of five or ten years and are generally repaid through the retailers' non-Class B common stock portion of the annual patronage dividend. The amount of the loans issued during 2015, 2014 and 2013 were $17,576, $16,682 and $15,585, respectively.

Cash paid for interest during 2015, 2014 and 2013 totaled $10,673, $9,696 and $7,711, respectively. Cash paid for state income taxes during 2015, 2014 and 2013 totaled $36, $31 and $21, respectively.

($ in thousands)

13. Benefit Plans

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

	January 2, 2016	January 3, 2015
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 71,849	$ 68,710
Service cost	-	-
Interest cost	2,283	2,568
Benefit payments	(475)	(421)
Actuarial (gain) / loss	(822)	8,230
Settlements	(13,318)	(7,238)
Projected benefit obligation at end of year	59,517	71,849
Change in plan assets:		
Fair value of plan assets at beginning of year	55,950	60,046
Actual return on assets	(1,774)	2,968
Employer contributions	5,721	595
Benefit payments	(475)	(190)
Annuity contract premium adjustment	-	-
Settlements	(13,318)	(7,469)
Fair value of plan assets at end of year	46,104	55,950
Reconciliation of funded status:		
Unfunded status at end of fiscal year	(13,413)	(15,899)
Actuarial loss:		
Prior year balance	26,738	22,191
Current year amortization	(2,427)	(1,766)
Current year settlement impact	(5,192)	(2,704)
Loss arising during current period	4,030	9,017
Actuarial loss	23,149	26,738
Net amount recognized	$ 9,736	$ 10,839

The Accumulated Benefit Obligation (“ABO”) for True Value administered pension plans was $59,517 and $71,849 at January 2, 2016 and January 3, 2015, respectively.

As of January 3, 2015, the pension plans had unrecognized actuarial losses of $26,738. The major sources of actuarial losses under the plans are related to increase in liabilities due to the steady decrease in discount rates and lump sum conversion rates over the past few years. Actuarial losses are amortized using the minimum amortization methodology as described in ASC 715-30, "Defined Benefit Plans - Pensions". At January 2, 2016, unrecognized actuarial losses decreased $3,589 to $23,149. Major sources of this change that occurred during 2015 resulted from an increase in the discount rate during 2015, which resulted in a gain of $1,253. Changes in the mortality table assumption resulted in an additional gain of $821. There was also a demographic gain of $92. A decrease resulting from actuarial losses recognized under ASC 715-30 settlement accounting of $5,192 and amortization of actuarial losses recognized of $2,427 further decreased the total unrecognized actuarial losses. However, changes in the lump sum conversion rate generated a loss of $1,343. Additionally, there was a loss of $4,853 due to less than favorable returns on plan assets compared to expectations. True Value expects settlement accounting to be triggered each year due to the nature of the plan design as most participants receive a lump sum upon termination.

($ in thousands)

One of True Value's pension plans is the supplemental retirement plan ("SRP"), which is an unfunded unqualified defined benefit plan. The SRP had a Projected Benefit Obligation ("PBO") of $2,707 and $3,437 as of January 2, 2016 and January 3, 2015, respectively. Since the SRP is an unfunded plan, there were no plan assets at January 2, 2016 and January 3, 2015.

At January 2, 2016, True Value recorded in the Pensions and Accrued expenses lines of the Consolidated Balance Sheet a net unfunded PBO of $13,413 for all True Value administered pension plans. The unrecognized actuarial loss for both plans of $23,149 was recorded as a reduction of Retailers' equity in Accumulated other comprehensive loss.

The amount of Accumulated other comprehensive income that is expected to be recognized into expense during 2016 resulting from recognition of deferred actuarial losses from amortization and settlements is $5,002.

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

	January 2, 2016	January 3, 2015	December 28, 2013
Components of net periodic cost:			
Service cost	$ -	$ -	$ -
Interest cost	2,283	2,568	2,352
Expected return on assets	(3,078)	(3,754)	(4,064)
Amortization of actuarial loss	2,427	1,766	3,089
Annuity contact premium adjustment	-	-	-
Settlement loss	5,192	2,704	2,465
Net pension cost	$ 6,824	$ 3,284	$ 3,842

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

	January 2, 2016	January 3, 2015	December 28, 2013
Measurement Date	1/3/2015	12/28/2013	12/29/2012
Weighted average assumptions:			
Discount rate	3.37%	4.02%	3.09%
Expected return on assets	5.50%	6.50%	7.00%
Rate of compensation increase	N/A	N/A	N/A

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

($ in thousands)

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

	One Percent Decrease	One Percent Increase
Sensitivity to Discount Rate		
Projected benefit obligation as of 1/2/2016	$ 4,527	$ (3,988)
2015 Pension income / (expense)	52	(55)
2015 Settlement income / (expense)	476	(471)
Total 2015 Pension income / (expense)	528	(526)
Sensitivity to expected return on assets:		
2015 Expected Return on Assets	$ (560)	$ 560

Plan Assets

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

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

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

Asset Category	Target	January 2, 2016	January 3, 2015
Domestic equities - Large cap	10.5%	10.5%	9.3%
Domestic equities - Mid cap	3.0%	3.0%	2.9%
Domestic equities - Small cap	1.5%	1.5%	1.4%
Foreign equities - International, Large cap	8.0%	8.2%	7.2%
Foreign equities - Emerging Markets, Large cap	7.0%	6.6%	4.6%
Real estate investment trusts	6.0%	6.3%	8.5%
Alternative investments - Commodities	5.0%	4.5%	6.8%
Fixed income - Investment grade	59.0%	59.1%	57.8%
Cash Equivalents	0.0%	0.3%	1.6%
Total	100.0%	100.0%	100.0%

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at January 2, 2016 and January 3, 2015.

Interest in Registered Investment Companies:

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

Common Stock:

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

Fixed Income Securities:

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

Collective Trusts – Cash Equivalents:

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

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

The following tables set forth by level, within the fair value hierarchy, the Plan’s investments at fair value as of January 2, 2016 and January 3, 2015.

($ in thousands)

Investments at Fair Value as of January 2, 2016	Level 1	Level 2	Level 3	Total
Interest in registered investment companies:				
Domestic equities - Large cap	$ 4,844	$ -	$ -	$ 4,844
Domestic equities - Mid cap	1,371	-	-	1,371
Domestic equities - Small cap	676	-	-	676
Foreign equities - International, Large cap	3,765	-	-	3,765
Foreign equities - Emerging Markets, Large cap	3,053	-	-	3,053
Real estate investment trusts	2,933	-	-	2,933
Alternative investments - Commodities	2,071	-	-	2,071
Common Stock - Domestic - Small cap	2	-	-	2
Fixed income securities, Investment Grade:				
Corporate bonds	-	17,646	-	17,646
Government bonds and agency debt	8,738	-	-	8,738
Municipal bonds	-	843	-	843
Collective Trusts - Cash Equivalents	-	161	-	161
Total assets at fair value	$ 27,453	$ 18,650	$ -	$ 46,104

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

Contributions

True Value does not expect to contribute to its qualified pension plan in 2016, whereas it does expect to contribute $230 to its SRP plan in 2016.

($ in thousands)

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

		Benefits
2016	$	7,722
2017		7,257
2018		6,703
2019		5,673
2020		4,955
2021-2025		21,820

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

	2015	2014
Measurement Date	1/2/2016	1/3/2015
Weighted average assumptions:		
Discount rate	3.66%	3.37%
Lump sum rate – current year	3.03%	3.04%
Lump sum rate – long term	4.50%	4.50%

The discount rate of 3.66% was primarily based on spot-yields as of January 2, 2016 from the Aon Hewitt Pension Discount Curve. The Aon Hewitt Pension Discount Curve was developed using high-quality corporate bonds.

The plan assumes a future lump sum conversion rate of 3.03% for 2016 distributions, 3.50% for 2017 distributions, 4.00% for 2018 distributions, and 4.50% for 2019 distributions and thereafter, versus 3.04% for 2015 distributions, 3.50% for 2016 distributions, and 4.00% for 2017 distributions and thereafter in the calculation of the PBO as of January 2, 2016 and January 3, 2015, respectively. For all frozen plan participants, the benefits under the plan are defined as a frozen annuity payable at age 65. Upon termination or retirement, the participant has an option to take the benefit as a lump sum amount. The lump sum is calculated by converting the deferred annuity to a lump sum using the mortality and conversion interest rate set forth in the plan. In general, the lower the lump sum conversion rate, the higher the lump sum benefit payable. Since the liability (PBO) is the present value of the future benefit payments, the assumed lump sum conversion rate will have an impact on the calculation of the PBO.

The expected long-term rate of return on assets assumptions was set in consultation with the plan's investment consultant. The rate is based on expected long-term returns on the plan's asset mix and the consultant's long-term capital market assumptions. For 2015 the rate was 5.50%, which was changed from 6.50% from the prior year. This rate is net of both investment-related expenses and other administrative expenses charged to the pension trust.

The average expected future service under the plan during 2015 was approximately 8.10 years for the qualified plan and 3.97 for the SRP.

Multiemployer Pension Plan

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

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

($ in thousands)

In 2014, as part of True Value's long-term strategic plan, the Company has decided to exit the Central States pension plan no later than 2018 and therefore has recorded related expenses of $4,944 in fiscal 2014 and an additional $489 in fiscal 2015.

True Value's participation in multiemployer pension plans for the plan year ended December 31, 2014, is outlined in the table below. The "EIN/PN" column provides the Employee Identification Number (EIN) and the three-digit plan number (PN). The most recent Pension Protection Act (PPA) zone status available for 2015 and 2014 is for the plan year-ends as indicated below. The zone status is based on information that True Value received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. In addition to regular plan contributions, True Value may be subject to a surcharge if the plan is in the red zone. The "Surcharge Imposed" column indicates whether a surcharge has been imposed on contributions to the plan. The last column lists the expiration date(s) of the collective-bargaining agreement(s) (CBA) to which the plans are subject.

		Pension Protection Act Zone Status			Contibutions made by True Value				
Pension Trust Fund	EIN / PN	2014	2013	FIP/RP Status Pending/ Implemented	2015	2014	2013	Surcharge Imposed	Expiration Date of CBA
Cental States, Southeast and Southwest Areas Pension Fund (1)	36-6044243 / 001	Red - 12/31/2014	Red - 12/31/2013	Implemented	$ 157	$ 110	$ 103	No	1/31/2018

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

Employee Savings and Compensation Deferral Plan

True Value also contributes to the True Value Company Employee Savings and Compensation Deferral Plan (the "401k Plan") in accordance with IRS regulations. Under the 401k Plan, each participant may elect to contribute an amount up to 50% of the participant's annual compensation, not to exceed $18.0 for 2015, and $17.5 for 2014 and 2013. Also, plan participants who are 50 years of age or older may elect to make additional catch-up contributions not to exceed $6.0 for 2015, and $5.5 for 2014 and 2013. The total participants' deferred compensation including True Value's contributions to the participants' balances may not exceed $53 for 2015, $52 for 2014 and $51 for 2013. True Value's 401k Plan included a 100% guaranteed match up to a total of 5% of the participant's annual compensation. Also, based on True Value achieving certain financial goals and at the discretion of the Board of Directors, an additional 1% of most participants' annual compensation could be earned. True Value recognized costs of $6,058, $5,890 and $5,576 for 2015, 2014 and 2013, respectively, for the 401k Plan. For 2015, 2014 and 2013, no discretionary components were earned.

14. Subsequent Events

True Value has determined as of February 21, 2016, the date the financial statements were available to be issued, that no material subsequent events have occurred that require adjustments or disclosures.

TRUE VALUE COMPANY
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

TRUE VALUE COMPANY

John R. Hartmann
President and
Chief Executive Officer

Deborah A. O'Connor
Senior Vice President and
Chief Financial Officer

Date: February 21, 2016