FINANCIAL REPORT 2016

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

2016 Highlights:

True Value ("the Company") completed its second full year in the execution of its strategic plan, which resulted in a $4,074 or 21.4% increase in the Patronage Dividend over the prior year. The Company continued to significantly invest in order to drive results in the three pillars of the plan: Engagement, Growth and Efficiency.

The Engagement initiatives focused on consumer oriented results. Starting in 2015, the Company implemented customer service training to retailers and their employees, in the form of *My True Value – A New Customer Experience*[SM]. True Value improved its performance in the J.D. Power Rankings and achieved the number one retailer position in the 2016 Temkin Experience Ratings. Also, through partnership with *DreamWorks Animation* to promote the Trolls movie, True Value became a paint destination by targeting young families, which produced an overall 5% increase in participating store sales.

The Company saw results on the Growth pillar with its sixth consecutive year of increased annual sales and third year of revenue from new stores exceeding the lost revenue from terminated stores ("net new"). Gross billings were $2,073,675 up 2.0% for the year compared to 2015. Total comparable retail sales increased 2.5% while comparable Destination True Value ("DTV") retail sales increased 3.7%. Several factors contributed to the comparable retail sales improvement, including continued investment in national advertising and support of the five national ads as well as increased adoption of Customized True Blue ("CTBs") relevant retail assortments. Retail sales also benefited from winter weather related sales in December which were partially offset by the mild winter in January and February and late spring arrival. Furthermore, the company implemented the Every Day Low Pricing ("EDLP") program that provides highly visible items at a lower cost to attract consumers.

The Company continued its investments in Growth initiatives that assist retailers in creating a relevant consumer experience. One of the most impactful ways to remain relevant with consumers is through store remodels. The Company had a record 101 stores remodeled, which represented relevant consumer square feet of over 960,000. The Company also completed 68 ground-up stores. True Value issued $12,014 in interest-bearing loans to retailers to help them remodel, expand, relocate, or open new stores. Strong conversion activity from 2015 and 2016 contributed to the incremental revenue from new stores of $62,957. As a result, "net new" revenue, after terminations, increased to $21,263 in 2016 compared to $703 in 2015. Finally, the Company continued to see solid growth in the international and e-commerce markets as it continued to invest and expand in those channels.

Significant changes were made in information technology and supply chain operations to support the Efficiency pillar. True Value invested in its infrastructure to refresh equipment, upgrade storage, improve system security and expand system capacity with the goal of creating a stable and supportable technology infrastructure. From a supply chain perspective, True Value focused on completing the outsourcing of the transportation fleet and starting route optimization efforts to stabilize delivery costs. The anticipated transportation savings will be reflected in a 25 basis point reduction in 2017 freight rates. In addition, the Company implemented voice pick technology in 2016 to improve order filling efficiency in the coming years.

True Value's total strategic initiative investment required $18,786 of expense compared to 2015 initiative expense of $23,198. When excluding the brand awareness initiative, the 2016 initiative expense increased $7,205 compared to the 2015 initiative expense of $11,581. In 2016, the Company realized increased vendor funding for its brand awareness initiative for national advertising and charged its members for the national advertising printing costs. In 2015, the Company absorbed the national advertising printing expense associated with this initiative. Several projects contributed to the year-over-year increase including investments in the information technology infrastructure and system stability, e-commerce features and fulfillment options, and the Members On Line (MOL) enhancements. The Company continues to make initiative investments, which have an initial investment to start the program as well as the ongoing costs to support those initiatives in the overall investment expense.

The strategic plan is a long-term view to provide 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 a patronage dividend of $23,114 or a $4,074 increase compared to the prior year with an approximately 90% cash payout.

Company Operations:

True Value sells hardware products and paint to a network of global independent retailers. As of year-end 2016, the Company served approximately 4,400 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.

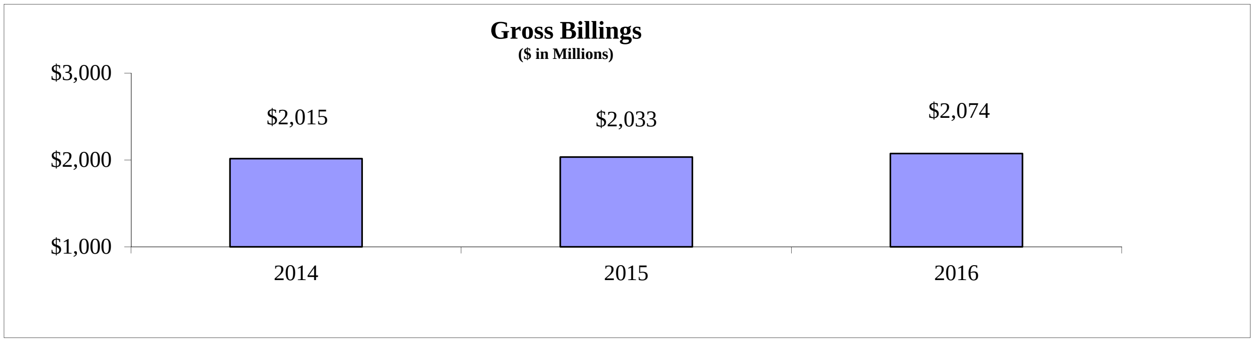
Cost of revenue includes the acquisition cost of merchandise (net of discounts and vendor incentives), transportation costs, inventory adjustments and advertising expenses. Logistics and Manufacturing expenses represent warehousing and paint manufacturing costs. SG&A costs include retail support center 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. In addition, weather can impact the Company's performance in certain categories.

The following discussion summarizes the important factors to understand our results and performance in 2016. Management utilizes a variety of key measures to monitor the financial health of True Value's business, including Gross billings, Revenue, Comparable Store Sales, Revenue from net retailer growth, as well as Net margin.

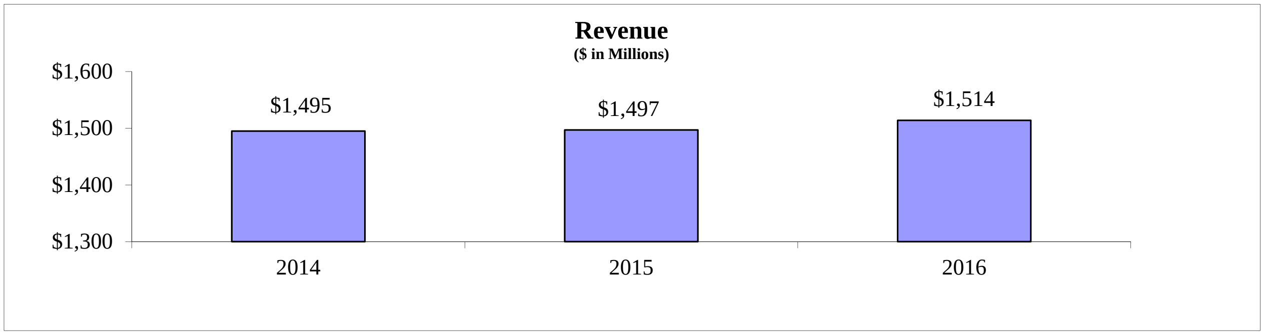
Gross Billings:

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.

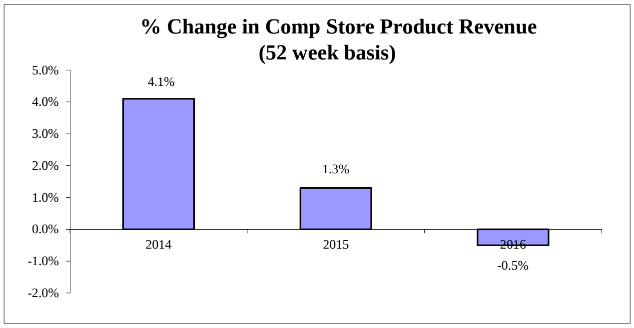


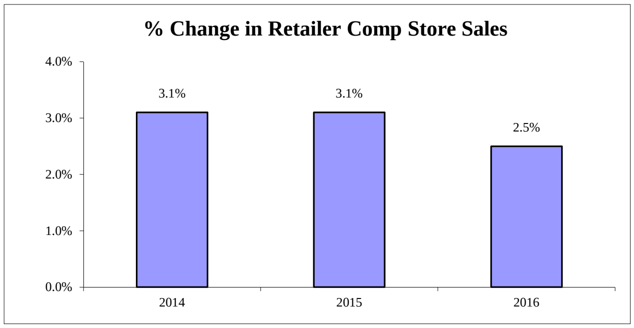
Gross billings increased for the sixth year in a row, up $40,479 or 2.0%, to $2,073,675 in 2016, compared to $2,033,196 in 2015. Vendor direct billings increased by $23,834, or 4.3%, predominately due to growth of our International retailers, as well as overall increases in the Hardware, Seasonal, and Paint categories. The warehouse gross billings increase of $15,153, or 1.1%, was primarily in the Farm Ranch Auto & Pet, Lawn and Garden, and Hand and Power Tools categories.

Revenue:

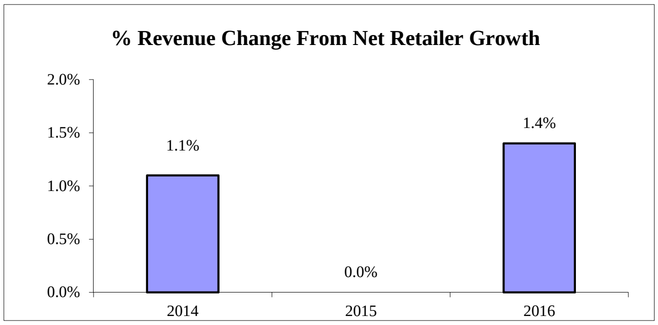


Revenue is the same as Gross billings except the vendor direct revenue is reduced by the vendor direct costs of revenue. In 2016, revenue increased by $16,878, or 1.1%, to $1,514,106 compared to $1,497,228 in 2015. The increase was primarily due to product sales related to the net change in participating retailers.





Wholesale comparable product revenue decreased for the first time in six years and was down 0.5% in 2016, while retail comparable store sales grew 2.5% based upon True Value supplied stock keeping units ("SKUs"), as reported by more than 1,700 stores. The decrease in wholesale product revenue was due to weather as a mild winter in January and February was only partially offset by a strong December as retailers carried over winter goods from the previous season. In addition, a late spring reduced the spring selling season window. As a result, comp store wholesale revenue is down slightly. Sales at retail had increases across eleven of the twelve regions in the country and six of nine merchandise categories, led by Farm Ranch Auto & Pet, up 10.8%.



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. The Company benefited from the annualization of the strong 2015 conversion activity as well as an additional 35 domestic retailers converting to True Value in 2016. Also, True Value signed 63 new core hardware stores. In addition, 37 international and specialty stores signed with True Value in 2016. While the net number of participating stores decreased by 74 to 4,392 from 4,466 at the end of 2015, revenue from new stores exceeded lost revenue from terminated stores by $21,263 in 2016.

($ in thousands)

Net Margin:

True Value's net margin was $23,689 compared to $19,042 in 2015. Both year's net margins included significant strategic plan investment expenses of $18,786 and $23,198 in 2016 and 2015, respectively. The Company also experienced higher net logistics and manufacturing costs of $9,719 primarily due to higher labor and warehouse fixed costs. In addition, the Company incurred higher incentive compensation as a result of meeting certain performance targets.

Results of Operations for 2016 compared to 2015

Revenue

A reconciliation of Revenue between 2016 and 2015 follows:

	Revenue	
2015 Revenue	$ 1,497,228	
Net comp store sales	(6,110)	-0.5%
Change in participating retailers:		
Net new retailers	62,957	4.2%
Net terminated retailers	(41,694)	(2.8%)
Net change in participating retailers	21,263	1.4%
Vendor - direct revenue	234	0.0%
Other revenue	1,491	0.1%
Total change	16,878	1.1%
2016 Revenue	$ 1,514,106	
2016 Gross Billings	$ 2,073,675	

Revenue for the year ending December 31, 2016 totaled $1,514,106, an increase of $16,878 or 1.1%, as compared to the prior year. Net comp store warehouse revenue decreased by $6,110 or 0.5% for the year primarily due to weather which negatively impacted the seasonal and home departments.

The net change in participating retailers was favorable for the year, as sales to new retailers increased $62,957, or 4.2%, partially offset by a decline in sales to terminated retailers of $41,694, or 2.8%. 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.

Other revenue increased by $1,491 or 0.1%, as compared to the prior year. The increase was predominately due to higher advertising revenue due to the change in pricing structure for the national event circulars and higher Fall Reunion booth revenue. The favorability was partially offset by lower transportation fees.

Gross Billings totaled $2,073,675, an increase of $40,479 or 2.0%, as compared to the prior year. The Gross billings increase was primarily due to the reasons discussed above, as well as increases in vendor direct gross billings.

Retail comp stores sales increased 2.5%, as reported by more than 1,700 members who provide point-of-sale data with increases across all departments except those with winter related goods.

($ in thousands)

Gross Margin	2016	2015	$ Increase
For the Year Ended	$231,418	$205,544	$25,874
Percent to Revenue	15.3%	13.7%	
Percent to Gross Billings	11.2%	10.1%	

Gross margin increased by $25,874 or 12.6%, as compared to the prior year reflecting the items discussed below. The significant gross margin improvement came from the increase in warehouse sales volume as well as improvements in inventory provision and adjustments, advertising expenses, freight-in expense, transportation costs and vendor rebates and discounts.

- Warehouse product margin increased by $866. Overall higher sales volume favorably impacted gross margin by $3,094. Lower margin rates on warehouse products unfavorably impacted gross margin by $2,228. The lower rate reflected lower prices on Event items to allow the retailer more upfront earnings potential, the roll out of *Everyday Low Prices*, as well as the Company's continued efforts to liquidate less productive inventory.

- The net change in the inventory reserve was lower reflecting the decrease in provision expense from a stabilization of rates. There was also less inventory shrinkage expense.

- Advertising margin increased by $11,248, primarily due to higher vendor funding for the brand awareness initiative and the change in the member pricing structure for the national event circulars.

- Freight in expense decreased mainly due to lower rates as a result of favorable market conditions for both import and domestic shipments.

- Transportation margin increased by $1,571. The increase was predominantly due to fuel savings and the elimination of expenses incurred in 2015 associated with the transition to an outsourced fleet. Partially offsetting these favorable margin impacts were lower transportation fees.

- Vendor rebates and discounts improved in 2016 mainly due to the higher warehouse and direct ship sales volume.

Logistics and Manufacturing Expenses	2016	2015	$ Increase
For the Year Ended	$75,502	$65,783	$9,719
Percent to Revenue	5.0%	4.4%	
Percent to Gross Billings	3.6%	3.2%	

Logistics and manufacturing expenses increased by $9,719 or 14.8%, as compared to the prior year. The increase was primarily due to warehouse labor costs from more orders and mix of product as well as higher wage rates. Additionally, investment in the RDC's drove increases in depreciation, rent, and lease expenses. Also, paint expenses were higher as a result of the DreamWorks Sponsorship for the Trolls movie and higher initiative spend. Furthermore, there was an unfavorable impact from a lower rate of indirect cost capitalized into inventory.

Selling, General and Administrative Expenses	2016	2015	$ Increase
For the Year Ended	$123,554	$112,890	$10,664
Percent to Revenue	8.2%	7.5%	
Percent to Gross Billings	6.0%	5.6%	

Selling, general and administrative ("SG&A") expenses increased by $10,664, or 9.4%, as compared to the prior year. Strategic initiative spending for the year increased $5,943, which represents primarily significant information technology investments. In addition, incentive compensation expense was higher.

($ in thousands)

Interest Expense	2016	2015	$ (Decrease)/Increase
For the Year Ended - Retailers	$5,976	$6,131	($155)
Percent to Revenue	0.4%	0.4%	
Percent to Gross Billings	0.3%	0.3%	
For the Year Ended – Third Parties	$7,240	$5,817	$1,423
Percent to Revenue	0.5%	0.4%	
Percent to Gross Billings	0.3%	0.3%	

Interest expense to retailers decreased in 2016 by $155, or 2.5%, as compared to the prior year. The decrease was due to both a lower average interest rate and a lower amount of notes outstanding during the periods.

Third-party interest expense was higher in the current year by $1,423, or 24.5%, as compared to the prior year due to both a higher average interest rate and higher daily borrowings on the revolving credit facility.

Net Margin	2016	2015	$ Increase
For the Year Ended	$23,689	$19,042	$4,647
Percent to Revenue	1.6%	1.3%	
Percent to Gross Billings	1.1%	0.9%	

The 2016 net margin of $23,689 increased by $4,647, or 24.4%, from the 2015 net margin of $19,042. The net margin increase was primarily driven by favorable gross margin partially offset by higher distribution costs and higher SG&A expenses.

($ in thousands)

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 prior 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%.

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.

($ in thousands)

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.

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.

Liquidity and Capital Resources

Liquidity

As of December 31, 2016, True Value had $4,047 in cash and cash equivalents and $145,657 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 and debt obligations due to be paid in 2017. The Bank Facility should provide sufficient liquidity for future needs, and is an important part of the Company's overall liquidity. The Bank Facility imposes administrative requirements which take effect if availability falls below designated thresholds. As of December 31, 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 $7,604 of outstanding in letters of credits as of December 31, 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 December 31, 2016, the Company had $123,502 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 notes receivable and past due accounts receivable in order to reduce the retailer's obligation to True Value.

True Value had sponsored two noncontributory defined benefit retirement plans that have been frozen since 2008. The defined benefit plans had an unfunded status of $15,721 and $13,413 as of December 31, 2016 and January 2, 2016, respectively. The Company contributed $203 and $5,721 in 2016 and 2015, 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 December 31, 2016 and January 2, 2016. The SRP has a liability of $2,311 and $2,707 as of December 31, 2016 and January 2, 2016, respectively. Finally, True Value participated in a multiemployer pension plan under the terms of a single collective-bargaining agreement that covered certain union-represented employees. The Company settled all pension liabilities associated with the Central States pension plan given its decision to outsource transportation services as part of its strategic plan. As of December 31, 2016, the Company has exited the plan and has satisfied all current liabilities associated with the Central States pension plan.

Cash Flows

Operating Activities

True Value operating activities generated cash of $22,319 in 2016, after using cash for operating activities in 2015 and 2014 of $34,645 and $20,417, respectively. The change in cash generated from operating activities in 2016 from cash used from operating activities in 2015 was primarily due to the change in inventory. The inventory level stabilized throughout 2016 compared to a buildup of inventory in both 2015 and 2014. In addition, inventory decreased in 2016 compared to 2015 as a result of strong December warehouse sales. The remaining contributors to the positive cash from operating activities were from favorable changes in working capital components including accounts receivables and payables.

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 thousands)

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.

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 2016, 2015, and 2014 of $24,082, $16,034, and $12,168, respectively. Investing activities primarily consist of capital expenditures. In 2016 and 2015, the increase in cash used for investing activities was predominantly due to investments related to True Value's strategic plan such as the modernization of information technology infrastructure.

Financing Activities

True Value generated cash from its financing activities in 2016, 2015, and 2014 of $1,935, $49,903, and $32,705, respectively. In 2016, 2015, and 2014, True Value increased borrowings from its revolving credit facility in the amount of $31,900, $75,200, and $62,200, respectively, mainly to fund its net operating and investing activities as well as to fund the payment of the patronage dividend, and notes and long-term debt.

Contractual Obligations

The Company has certain financing methods including a mortgage on its Manchester facility and subordinated promissory and subordinated promissory installment notes. The notes are mainly related to the issuance of True Value's patronage dividend and have original maturities ranging from 5 – 10 years. Patronage dividend notes for 2009, that were issued in 2010, had a seven year term and are payable in 2017. Patronage dividend notes for 2010, that were issued in 2011, had an eight year term and are payable in 2019.

In accordance with GAAP, operating leases for the Company's real estate and equipment are not reflected in the Consolidated Balance Sheet. However, capital leases are reflected in the Consolidated Balance Sheet. The following table summarizes the contractual cash obligations as of December 31, 2016, including operating leases, and the effect such obligations will have on liquidity and cash flow in future periods.

	2017	2018	2019	2020	2021	Thereafter
Real estate mortgage	$ 1,109	$ 1,186	$ 1,269	$ 1,357	$ 1,452	$ 6,888
Subordinated promissory and subordinated promissory installment notes	29,455	5,130	22,969	2,380	20,321	43,247
Operating Leases	28,386	28,065	28,367	28,685	23,598	39,166
Capital Leases	1,392	1,367	1,295	1,165	760	772
Net minimum payments	$ 60,342	$ 35,748	$ 53,900	$ 33,587	$ 46,131	$ 90,073

In addition to the above 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 all 12 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 book value 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 December 31, 2016, accounts and short-term notes receivable, net of $5,678 in allowance for doubtful accounts, was $257,056; retailer long term notes receivable net of $888 in allowance for doubtful accounts was $41,468. 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, in which case the costs would be netted. In certain cases, the Company groups multiple vendors' funding and assess on an aggregate basis. As of December 31, 2016, vendor funds related to unpaid amounts for the rebate programs were included in the vendor and other accounts receivable amount of $33,295.

- *Inventories, net of valuation reserves* – At December 31, 2016, inventories were $382,353, net of $20,046 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 December 31, 2016 and January 2, 2016, 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. True Value can use one of two methods for evaluating goodwill impairment. The qualitative method is used unless a significant event necessitates the quantitative, two step approach.

  For fiscal year 2016, True Value first assessed qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this guidance, True Value is not required to calculate the fair value of its reporting unit unless it determines based on the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount. True Value applied the qualitative approach to its Wholesale reporting unit during 2016.

  For fiscal year 2015, goodwill was evaluated for impairment using a two-step approach given True Value's significant investments in its strategic initiatives. 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 December 31, 2016, the accompanying Consolidated Balance Sheet reflects $35,626 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 $6,907, are offset by a full valuation allowance at December 31, 2016. True Value had approximately $13,038 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 December 31, 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 December 31, 2016, the funded status of the defined benefit plans was a liability of $15,721. 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 2015 and 2016, 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 the total combined qualified pension and SRP expense by $340, including the settlement expense. A one-percentage-point increase in the expected return on assets would decrease pension expense by $457.

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 the vast majority of 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 US LLP

Independent Auditor's Report

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 as of December 31, 2016 and January 2, 2016, the related consolidated statements of comprehensive income, changes in retailers' equity and cash flows for each of the three years ended December 31, 2016, January 2, 2016, and January 3, 2015, 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 December 31, 2016 and January 2, 2016, and the results of its operations and its cash flows for the three years ended December 31, 2016, January 2, 2016, and January 3, 2015, in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Schaumburg, Illinois
March 9, 2017

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

	December 31, 2016	January 2, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,047	$ 3,875
Accounts and notes receivable, net of allowance for doubtful accounts of $5,678 and $3,832	257,056	246,138
Vendor and other accounts receivables	33,295	39,424
Inventories, net of valuation reserves of $20,046 and $20,829	382,353	387,780
Prepaid expenses	23,550	18,774
Total current assets	700,301	695,991
Long-term assets:		
Property, plant and equipment, net	89,731	72,705
Goodwill	78,429	78,429
Retailer notes receivable, net of allowance for doubtful accounts of $888 and $1,671	41,468	44,775
Other assets, net of allowance for doubtful accounts of $476 and $226	24,903	18,912
Total assets	$ 934,832	$ 910,812
LIABILITIES AND RETAILERS' EQUITY		
Current liabilities:		
Accounts payable	$ 249,515	$ 243,731
Drafts payable	27,126	31,899
Accrued expenses	67,701	72,673
Revolving credit facility	204,700	172,800
Current maturities of long-term debt, retailer notes	29,455	13,293
Current maturities of long-term third-party debt	2,501	1,430
Patronage dividend payable in cash	17,343	15,408
Total current liabilities	598,341	551,234
Long-term liabilities and deferred credits:		
Long-term retailer debt, less current maturities	94,047	112,751
Long-term third-party debt, less current maturities	17,511	13,330
Deferred gain on sale leaseback	13,891	16,669
Pensions	15,473	13,103
Other long-term liabilities	25,516	26,692
Total long-term liabilities and deferred credits	166,438	182,545
Total liabilities and deferred credits	764,779	733,779
Retailers' equity:		
Redeemable Class A voting common stock, $100 par value; 750,000 shares authorized; 228,300 and 232,860 shares issued and fully paid	22,830	23,286
Redeemable qualified Class B nonvoting common stock and paid-in capital, $100 par value; 4,000,000 shares authorized; 1,747,881 and 1,830,010 shares issued and fully paid	176,087	184,300
Redeemable nonqualified Class B nonvoting common stock, $100 par value; 119,282 and 126,898 shares issued and fully paid	11,928	12,690
Deferred patronage	(15,326)	(16,074)
Accumulated deficit	(5,250)	(5,077)
Accumulated other comprehensive loss	(20,216)	(22,092)
Total retailers' equity	170,053	177,033
Total liabilities and retailers' equity	$ 934,832	$ 910,812

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

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

	For the Years Ended		
	December 31, 2016	January 2, 2016	January 3, 2015
Gross billings	$ 2,073,675	$ 2,033,196	$ 2,014,840
Revenue	$ 1,514,106	$ 1,497,228	$ 1,495,023
Cost of revenue	1,282,688	1,291,684	1,271,958
Gross margin	231,418	205,544	223,065
Operating expenses:			
Logistics and manufacturing expenses	75,502	65,783	58,758
Selling, general and administrative expenses	123,554	112,890	116,796
Other income, net	(4,583)	(4,154)	(4,465)
Operating income	36,945	31,025	51,976
Interest expense to retailers	5,976	6,131	6,207
Third-party interest expense	7,240	5,817	4,659
Net margin before income taxes	23,729	19,077	41,110
Income tax expense	40	35	12
Net margin	$ 23,689	$ 19,042	$ 41,098
Other comprehensive income / (loss):			
Pension liability adjustment for deferred actuarial income / (loss)	1,989	3,589	(4,547)
Post-retirement liability for deferred actuarial (loss)	(202)	(163)	(182)
Other income / (loss)	89	172	(283)
Comprehensive income	$ 25,565	$ 22,640	$ 36,086

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		
	December 31, 2016	January 2, 2016	January 3, 2015
Operating activities:			
Net margin	$ 23,689	$ 19,042	$ 41,098
Adjustments to reconcile net margin to net cash and cash equivalents provided by / (used for) operating activities:			
Depreciation and amortization	24,591	20,436	19,124
Provision to allowance for doubtful accounts	3,150	2,988	791
Provision for inventory reserves	10,416	15,464	11,342
Loss / (gain) on disposal and sale of assets	129	200	(6)
Amortization of deferred gain on sale leaseback	(2,778)	(2,778)	(2,778)
Changes in operating assets and liabilities:			
Accounts, vendor and other receivables	(31,617)	(36,513)	(75,260)
Inventories	(4,990)	(41,088)	(49,684)
Other current assets	(4,091)	(62)	(1,491)
Accounts payable	6,101	(2,350)	19,877
Accrued expenses	(6,598)	(11,007)	14,575
Pension	4,296	1,103	2,687
Other adjustments, net	21	(80)	(692)
Net cash and cash equivalents provided by / (used for) operating activities	22,319	(34,645)	(20,417)
Investing activities:			
Additions to property, plant & equipment	(26,598)	(17,834)	(13,522)
Proceeds from sale of properties	9	79	7
Proceeds from collection of notes	2,507	1,721	1,347
Net cash and cash equivalents used for investing activities	(24,082)	(16,034)	(12,168)
Financing activities:			
Payment of patronage dividend	(14,073)	(16,970)	(17,824)
Payment of notes, long-term debt and capital lease obligations	(10,322)	(8,891)	(9,470)
(Decrease)/Increase in drafts payable	(4,773)	1,029	1,327
Increase in revolving credit facility, net	31,900	75,200	62,200
Payment of debt issuance costs	-	-	(3,125)
Proceeds from sale of Redeemable Class A common stock and subscriptions receivable	888	1,008	1,032
Purchase of Class A and Class B common stock	(1,685)	(1,473)	(1,435)
Net cash and cash equivalents provided by financing activities	1,935	49,903	32,705
Net increase / (decrease) in cash and cash equivalents	172	(776)	120
Cash and cash equivalents at beginning of year	3,875	4,651	4,531
Cash and cash equivalents at end of year	$ 4,047	$ 3,875	$ 4,651

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 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 loss, income	-	-	-	-	-	-	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**
Net margin	-	-	-	-	-	23,689	-	23,689
Reclass stock presented for redemptions to liabilities	(14,100)	(1,344)	(108,196)	(10,820)	748	(748)	-	(12,164)
Patronage dividend	-	-	18,451	1,845	-	(23,114)	-	(21,269)
Class A stock purchases	9,540	888	-	-	-	-	-	888
Other comprehensive income, net	-	-	-	-	-	-	1,876	1,876
Balances at and for the year ended December 31, 2016	**228,300**	**22,830**	**1,867,163**	**188,015**	**(15,326)**	**(5,250)**	**(20,216)**	**170,053**

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

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

1. Description of Business and Accounting Policies

Principal Business Activity

True Value ("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 2016, 2015 and 2014 ended on December 31, 2016, January 2, 2016, and January 3, 2015, respectively. Fiscal years 2016 and 2015 contained 52 weeks; fiscal year 2014 contained 53 weeks.

Reclassifications and Adjustments

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

Use of Estimates

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

Cash and Cash Equivalents

True Value classifies all highly liquid investments with an original maturity of three months or less as cash and 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 December 31, 2016 allowance was $7,042 compared to the allowance as of January 2, 2016 of $5,729. 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, in which case the costs would be netted. In certain cases, the Company groups multiple vendors' funding and assess on an aggregate basis. As of December 31, 2016 and January 2, 2016, vendor funds related to unpaid amounts for the rebate programs were included in the vendor and other accounts receivable of $33,295 and $39,424, 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 2016 inventory valuation reserve was $20,046, a decrease of $783 from the ending 2015 reserve of $20,829. 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 December 31, 2016 and January 2, 2016, Goodwill was $78,429 for the Wholesale reporting unit, with no Goodwill associated with its Paint Manufacturing reporting unit (total impairment of $13,045).

($ in thousands)

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. True Value can use one of two methods for evaluating goodwill impairment. The qualitative method is used unless a significant event necessitates the quantitative two step approach.

For fiscal year 2016, True Value first assessed qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this guidance, True Value is not required to calculate the fair value of its reporting unit unless it determines based on the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount. True Value applied the qualitative approach to its Wholesale reporting unit during 2016 and determined there was no impairment and therefore the quantitative approach was not necessary.

In 2015, the Company used the quantitative method to evaluate goodwill for impairment. 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, 2015, 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.

Accumulated other comprehensive loss

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

	December 31, 2016	January 2, 2016
Pension	$ 21,160	$ 23,149
Post retirement	(944)	(1,146)
Other	-	89
	$ 20,216	$ 22,092

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 $582,521, $558,687 and $541,159 for 2016, 2015 and 2014, 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 $53,940 and $58,459 for 2016, respectively, $49,696 and $60,506 for 2015, respectively, and $50,025 and $61,709 for 2014, 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 and are net of certain vendors' funding. Such costs amounted to $35,023, $44,420, and $34,094 in 2016, 2015 and 2014, 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 $1,075, $1,337, and $1,267 in 2016, 2015 and 2014, 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 December 31, 2016 and 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.

True Value follows the provisions of the Financial Accounting Standards Board (FASB) guidance related to accounting for uncertainty in income taxes. True Value has not recorded a reserve for any tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. When and if applicable, potential interest and penalty expenses are accrued as incurred and classified in selling, general and administrative expenses in the statement of income. As of December 31, 2016 and January 2, 2016, 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 2011 and prior. True Value is still subject to state audits in seven states for its tax year 2012 and remains open to audit for most jurisdictions for years 2013 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 qualified defined benefit pension plan and a supplemental retirement plan). As of December 31, 2016 and January 2, 2016, the funded status of the qualified pension plan was a liability of $13,410 and $10,706. 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 2015 and 2016, 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 the 2016 total qualified pension expense by $321, including the settlement expense. A one-percentage-point increase in the expected return on assets would decrease the 2016 pension expense by $457.

The supplemental retirement plan ("SRP"), which is an unfunded nonqualified defined benefit plan. Since the SRP is an unfunded plan, there were no plan assets at December 31, 2016 and January 2, 2016. The unfunded status of the SRP was a liability of $2,311 and $2,707 as of December 31, 2016 and January 2, 2016, respectively. In addition, the Company has a liability for postretirement benefits of $791 as of December 31, 2016 and $763 as of January 2, 2016.

The Company also participated in a multi-employer pension plan under the terms of a single collective-bargaining agreement that cover certain union-represented employees. The benefits were paid from assets held in trust for that purpose. The Company settled all pension liabilities associated with the Central States pension plan given its decision to outsource transportation services as part of its strategic plan. As of December 31, 2016, the Company has exited and has satisfied all current liabilities associated with the Central States pension plan.

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.

Pending 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. In 2016, the FASB issued additional guidance to clarify ASU 2014-09 and have the same effective dates as the original ASU. The additional guidance includes ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, and ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients. Management is in the process of assessing the impact of these guidance on the Company's financial statements.

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, 2016, including interim periods within those fiscal years. The Company is currently evaluating the impact of this standard but does not anticipate this amendment having a material impact on True Value's Annual and Quarterly Reports when this standard becomes effective.

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. Early application is permitted for this update. The Company is currently evaluating the impact of this standard but does not anticipate this amendment having a material impact on True Value's Annual and Quarterly Reports when this standard becomes effective.

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 this update. The Company does not anticipate this amendment having a material impact on True Value's Annual and Quarterly Reports when this standard becomes effective.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated standard will be effective for reporting years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for this update. The Company is currently evaluating the impact of this standard.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments with the intent of improving the decision-usefulness of financial information provided to financial statement users regarding expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. This update provides greater flexibility in the recording of credit losses by allowing an entity to record a credit loss that is expected, but that may not meet the "probable" threshold as had previously been required. The updated standard will be effective for reporting years beginning after December 15, 2020, and interim periods within fiscal years. The Company is currently evaluating the impact of this standard but does not anticipate this amendment having a material impact on True Value's Annual and Quarterly Reports when these standards become effective.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments to address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this update provide guidance on the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The updated standard is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of this standard but does not anticipate this amendment having a material impact on True Value's Annual and Quarterly Reports when these standards become effective.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which removes Step 2 from the goodwill impairment test. Instead an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, however, the impairment amount should not exceed the goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This ASU is effective for goodwill impairment tests in fiscal years beginning after December 15, 2021 and early adoption is permitted. The Company is currently evaluating the impact of this standard.

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, refinance trade receivables 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 December 31, 2016, True Value had $57,083 in loans outstanding at an average interest rate of 5.32% and $5,143 in unamortized discount remaining. 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. During 2016 and 2015, $1,511 and $1,695, respectively, of discount was recognized as a reduction of revenue and $1,643 and $2,148, 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. Refinanced trade receivables of $8,898 and $7,930 as of December 31, 2016 and January 2, 2016, respectively, are included in the chart below, and True Value has modified certain loans for maturity dates and installment amounts.

($ in thousands)

Notes receivable consist of the following components:

	December 31, 2016	January 2, 2016
Notes receivable, gross	$ 65,981	$ 66,025
Less estimated patronage applications	3,926	3,632
Net	62,055	62,393
Less current portion	19,699	15,947
Less allowance for doubtful accounts	888	1,671
Notes receivable, net	$ 41,468	$ 44,775

True Value applies a consistent practice of establishing an allowance for notes that it feels may become uncollectible by monitoring the financial strength of its retailers. The collectability of certain notes is evaluated on an individual basis while the remaining notes are evaluated on a collective basis. Interest continues to accrue on notes that are impaired. The breakdown of notes evaluated individually versus notes evaluated collectively at December 31, 2016 and January 2, 2016 was as follows:

	December 31, 2016	January 2, 2016
Notes receivable		
Ending balance individually evaluated for impairment	$ 13,356	$ 12,036
Ending balance collectively evaluated with no impairment	52,625	53,989
Ending principal balance	$ 65,981	$ 66,025

True Value has evaluated the collectability of the accounts and notes receivable and has established an allowance for doubtful accounts of $7,042 and $5,729 at December 31, 2016 and January 2, 2016, respectively. The allowances include reserves on certain member agreements of $476 and $226 at December 31, 2016 and January 2, 2016, 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 2016 and 2015 were as follows:

	December 31, 2016	January 2, 2016
Allowance for doubtful accounts		
Beginning balance	$ 5,729	$ 4,160
Provision	3,150	2,988
Net write-off	(1,837)	(1,419)
Ending Balance	7,042	5,729
Reclass to current	(5,678)	(3,832)
Long term allowance for doubtful accounts	$ 1,364	$ 1,897

($ in thousands)

The degree of credit risk assessed on accounts and notes receivables and the related allowance for doubtful accounts for 2016 and 2015 were as follows:

	Accounts and Notes Receivable, Gross	Allowance for Doubtful Accounts
December 31, 2016		
Low	$ 292,394	$ 1,518
Medium	8,863	2,051
High	3,833	2,997
Total	$ 305,090	$ 6,566
January 2, 2016		
Low	$ 289,336	$ 1,080
Medium	3,468	984
High	3,612	3,439
Total	$ 296,416	$ 5,503

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

3. Inventories

Inventories consisted of the following at:

	December 31, 2016	January 2, 2016
Manufacturing inventories:		
Raw materials	$ 5,304	$ 3,586
Work-in-process and finished goods	23,638	18,521
Manufacturing inventory reserves	(1,304)	(1,404)
	27,638	20,703
Merchandise inventories:		
Warehouse inventory	373,457	386,502
Merchandise inventory reserves	(18,742)	(19,425)
	354,715	367,077
	$ 382,353	$ 387,780

The amount of direct and indirect acquisition costs included in ending inventory was $24,982 and $25,085 at December 31, 2016 and January 2, 2016, respectively.

($ in thousands)

4. Property, Plant & Equipment

Property, Plant & Equipment consisted of the following at:

	December 31, 2016	January 2, 2016
Buildings and improvements	$ 103,773	$ 99,318
Machinery and warehouse equipment	80,418	72,427
Office and computer equipment, and software	178,477	159,043
Transportation equipment	18,507	17,651
	381,175	348,439
Less: accumulated depreciation	(293,784)	(278,074)
	87,391	70,365
Land	2,340	2,340
	$ 89,731	$ 72,705

Assets under capital leases included in Property, Plant and Equipment, net of amortization, totaled $6,806 and $453 at December 31, 2016 and January 2, 2016, respectively. Depreciation expense, which includes amortization of capital leases, for 2016, 2015 and 2014, was $16,734, $14,845 and $14,591, 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 $6,327, $5,372 and $4,550 for 2016, 2015 and 2014, 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 $21,573 and $14,125 at the end of 2016 and 2015, respectively.

5. Accrued Expenses

Accrued expenses consisted of the following at:

	December 31, 2016	January 2, 2016
Payroll and related taxes and benefits	$ 25,742	$ 21,450
Unearned revenue	9,275	8,868
Warehouse & Transportation	7,508	6,490
Pension withdrawal	-	5,433
Advertising	4,426	6,845
Liability insurance	3,223	3,937
Other	17,527	19,650
	$ 67,701	$ 72,673

True Value participated in a multiemployer pension plan under the terms of a single collective-bargaining agreement that covered certain union-represented employees. The Company settled all pension liabilities associated with the Central States pension plan given its decision to outsource transportation services as part of its strategic plan. As of December 31, 2016, the Company has exited the plan and has satisfied all current liabilities associated with the Central States pension plan.

($ in thousands)

6. Debt Arrangements

Long-term debt consisted of the following at:

	December 31, 2016		January 2, 2016	
Real estate mortgage	$	13,261	$	14,298
Capital leases		6,751		462
Total third-party debt		20,012		14,760
Subordinated promissory and subordinated promissory installment notes		123,502		126,044
		143,514		140,804
Less: amounts due within one year		(31,956)		(14,723)
	$	111,558	$	126,081

The weighted average of stated interest rates on total debt was 3.21% and 3.36% as of December 31, 2016 and January 2, 2016, 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 December 31, 2016 and January 2, 2016, was $145,657 and $191,204, respectively, after taking into account outstanding letters of credit. The Bank Facility imposes administrative requirements which take effect if availability falls below designated thresholds.

At December 31, 2016 and January 2, 2016, True Value had $204,700 and $172,800 in revolving credit loans, respectively. As of December 31, 2016 and January 2, 2016, True Value’s average year-to-date interest rate based on a blend of London Interbank Offering Rates (“LIBOR”) and the prime interest rate charged for borrowings under the Bank Facility were 2.1% and 1.8% for 2016 and 2015, respectively. The average year-to-date fees charged for use of the Bank Facility was 0.2% and 0.2% for 2016 and 2015, respectively.

The Bank Facility imposes certain limitations on and requires compliance with covenants from True Value that are usual and customary for similar senior secured revolving credit facilities. As of December 31, 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 December 31, 2016 of $13,261 and at January 2, 2016 of $14,298. The Mortgage is a 20-year fully amortizing loan at a fixed rate of 6.74% with a maturity date of January 1, 2026.

($ in thousands)

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 2016, notes maturing in June and December were extended for an additional six months at rates of 2.0% and approximately 94% and 96%, respectively, of the maturing note values were renewed. 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. True Value has not determined if it will offer retailers with subordinated promissory notes maturing after December 2016 a renewal option or redemption at maturity.

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:

	December 31, 2016	January 2, 2016
Subordinated promissory notes at interest rates from 2.00% to 5.50%, maturing from 2016 to 2024	$ 105,025	$ 108,786
Subordinated promissory installment notes at interest rates from 1.76% to 2.73%, maturing from 2017 to 2020	16,604	14,500
Accrued stock redemption liability	1,873	2,758
	123,502	126,044
Less: amounts due within one year	(29,455)	(13,293)
	$ 94,047	$ 112,751

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:

	2017	2018	2019	2020	2021	Thereafter
Real estate mortgage	$ 1,109	$ 1,186	$ 1,269	$ 1,357	$ 1,452	$ 6,888
Subordinated promissory and subordinated promissory installment notes	29,455	5,130	22,969	2,380	20,321	43,247
Capital leases	1,392	1,367	1,295	1,165	760	772
Net minimum payments	$ 31,956	$ 7,683	$ 25,533	$ 4,902	$ 22,533	$ 50,907

($ 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 December 31, 2016.

	Capital	Operating
2017	$1,690	$28,386
2018	1,599	28,065
2019	1,460	28,367
2020	1,269	28,685
2021	815	23,598
Thereafter	797	39,166
Net minimum payments	7,630	176,267
Less amount representing interest	(879)	
Present value of net minimum lease payments	6,751	
Less amount due within one year	(1,392)	
	$5,359	

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

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

Rent expense under operating leases (reduced by sublease rentals) was $30,361, $33,299 and $31,567 for the years ended December 31, 2016, January 2, 2016 and January 3, 2015, respectively. Long-term deferred rent of $14,761 and $17,411 at December 31, 2016 and January 2, 2016, 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 December 31, 2016 and January 2, 2016, the balance of the deferred gain was $16,669 and $19,447, 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. Retailers' equity is comprised of Redeemable Class A voting common stock, Redeemable qualified and nonqualified Class B nonvoting common stock, 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 2015 and 2016 the rate was 2.61% and 2.73%, respectively, and for 2017 the rate will be 2.94%. 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/(loss), 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 2015 patronage dividend that was paid in 2016, the Board of Directors authorized an additional 5.7% over the base 5% of the net patronage source income, as a reasonable reserve, to reduce the accumulated deficit account. For the 2016 patronage dividend that will be paid in 2017, the Board of Directors determined that a reserve against the net patronage source income was not warranted 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 100% cash payment of the 2015 patronage dividend and an approximately 90% cash payment of the 2016 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 2016 patronage dividend before the application of set-off rights will be approximately $21,269 compared to 2015 of $19,040.

Total patronage dividends related to the year ended December 31, 2016, will be $23,114. After applying set-off rights to retailers with outstanding loans or payments owed, True Value expects to pay $17,343 of the dividend in cash, less any additional set-off rights for receivables at the time of the patronage dividend disbursement. This includes $466 that will be paid in cash in lieu of subordinated promissory notes being issued for de minimis amounts. True Value will pay the remainder through the issuance of True Value’s Redeemable qualified Class B nonvoting common stock. Patronage dividends of $19,040 related to the year ended January 2, 2016, were paid in March 2016 and patronage dividends of $41,096 related to the year ended January 3, 2015, were paid in March 2015; 100% of which was paid in cash prior to any application of set-off rights for 2015 and approximately 50% of which was paid in cash prior to any application of set-off rights for 2014. The remainder of the 2014 patronage dividend was paid 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, 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 all 12 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 December 31, 2016, True Value had outstanding letters of credit in the amount of $7,604.

($ in thousands)

11. Income Taxes

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

	December 31, 2016	January 2, 2016	January 3, 2015
Current:			
Federal	$ -	$ -	$ -
State	40	35	12
Total current	40	35	12
Deferred:			
Federal	-	-	-
State	-	-	-
Total deferred	-	-	-
	$ 40	$ 35	$ 12

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

	December 31, 2016	January 2, 2016	January 3, 2015
Tax at statutory rate	$ 8,343	$ 6,715	$ 14,451
Effects of:			
Patronage dividend	(8,352)	(6,926)	(14,646)
State income taxes, net of federal benefit	26	23	8
Decrease in valuation allowance	(230)	(13)	(33)
Other, net	253	236	232
	$ 40	$ 35	$ 12

Deferred income taxes reflect the net tax effects to True Value of its net operating loss carry-forwards, which expire in years through 2035, 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.

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:

	December 31, 2016	January 2, 2016
Deferred tax assets:		
Net operating loss carryforwards	$ 4,839	$ 2,924
AMT credit carryforward	541	541
Nonqualified notices of allocation	4,771	5,076
Vacation pay	1,685	1,976
Deferred gain	6,668	7,779
Severance and restructuring costs	1,687	1,444
Reserves and accruals	6,423	5,480
Rent expense	1,516	1,818
Inventory capitalization	909	-
Bad debt expense	2,817	2,292
Other	3,770	2,681
Total deferred tax assets	35,626	32,011
Valuation allowance for deferred tax assets	(28,719)	(26,596)
Net deferred tax assets	6,907	5,415
Deferred tax liabilities:		
Tax depreciation in excess of book	3,721	2,456
Inventory capitalization	-	352
Contributions to fund retirement plans	2,024	1,576
Other	1,162	1,031
Net deferred tax liabilities	6,907	5,415
Net deferred tax assets	$ -	$ -

($ in thousands)

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:

	December 31, 2016	January 2, 2016	January 3, 2015
Distribution of annual patronage dividend:			
Patronage dividend payable in cash	$ 17,343	$ 15,408	$ 18,531
Redemption of retail growth notes	3,926	3,632	3,733
Cash Portion	21,269	19,040	22,264
Issuance of subordinated promissory notes	-	-	3,341
Issuance of Redeemable Class B nonvoting common stock	1,845	-	15,491
Total Patronage Dividend	$ 23,114	$ 19,040	$ 41,096

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 2016 and 2015 of $12,164 and $12,533, respectively, against obligation owed by the retailer to True Value of $1,212 and $1,805. The remaining amount due to retailers was partially satisfied with subordinated promissory installment notes of $9,266 and $9,255 in 2016 and 2015, 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 2016, 2015 and 2014, set off $9,364, $11,310 and $10,480, 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 2016, 2015 and 2014, True Value extended subordinated promissory notes, at the option of the retailer, in the amounts of $6,148, $6,827 and $8,319, respectively. In addition, in 2014 True Value set-off $1,611 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 2016, 2015 and 2014 were $12,014, $17,576 and $16,682, respectively.

True Value also had noncash financing and investing activities by entering into capital leases in the amount of $7,419 and $523 for 2016 and 2015, respectively. True Value did not enter into any capital leases in 2014. True Value’s capital leases primarily relate to machinery and equipment, office and computer equipment and software, as well as transportation equipment.

Cash paid for interest during 2016, 2015 and 2014 totaled $11,709, $10,673 and $9,696, respectively. Cash paid for state income taxes during 2016, 2015 and 2014 totaled $51, $36 and $31, respectively.

($ in thousands)

13. Benefit Plans

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

	December 31, 2016	January 2, 2016
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 59,517	$ 71,849
Service cost	-	-
Interest cost	2,059	2,283
Benefit payments	(528)	(475)
Actuarial loss / (gain)	2,264	(822)
Settlements	(7,885)	(13,318)
Projected benefit obligation at end of year	55,427	59,517
Change in plan assets:		
Fair value of plan assets at beginning of year	46,104	55,950
Actual return on assets	1,812	(1,774)
Employer contributions	203	5,721
Benefit payments	(528)	(475)
Settlements	(7,885)	(13,318)
Fair value of plan assets at end of year	39,706	46,104
Reconciliation of funded status:		
Unfunded status at end of fiscal year	(15,721)	(13,413)
Actuarial loss:		
Prior year balance	23,149	26,738
Current year amortization	(1,865)	(2,427)
Current year settlement impact	(3,087)	(5,192)
Loss arising during current period	2,963	4,030
Actuarial loss	21,160	23,149
Net amount recognized	$ 5,439	$ 9,736

The Accumulated Benefit Obligation (“ABO”) for True Value administered pension plans was $55,427 and $59,517 at December 31, 2016 and January 2, 2016, respectively.

As of January 2, 2016, the pension plans had unrecognized actuarial losses of $23,149. The major sources of actuarial losses under the plans are related to increase in liabilities due to increases in discount rates, changes in the mortality table assumption, and small demographic gains. Actuarial losses are amortized using the minimum amortization methodology as described in ASC 715-30, "Defined Benefit Plans - Pensions". At December 31, 2016, unrecognized actuarial losses decreased $1,989 to $21,160. Major sources of this change that occurred during 2016 resulted from changes in the mortality tables which lead to a gain of $1,042. A decrease in the discount rate during 2016 resulted in a loss of $404. There was also a demographic loss of $680. A decrease resulting from actuarial losses recognized under ASC 715-30 settlement accounting of $3,087 and amortization of actuarial losses recognized of $1,865 further decreased the total unrecognized actuarial losses. However, changes in the lump sum conversion rate generated a loss of $2,223. Additionally, there was a loss of $698 due to lower plan asset returns compared to the expected long term return. 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 $2,311 and $2,707 as of December 31, 2016 and January 2, 2016, respectively. Since the SRP is an unfunded plan, there were no plan assets at December 31, 2016 and January 2, 2016.

At December 31, 2016, True Value recorded in the Pensions and Accrued expenses lines of the Consolidated Balance Sheet a net unfunded PBO of $15,721 for all True Value administered pension plans. The unrecognized actuarial loss for both plans of $21,160 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 2017 resulting from recognition of deferred actuarial losses from amortization and settlements is $4,106.

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

	December 31, 2016	January 2, 2016	January 3, 2015
Components of net periodic cost:			
Interest cost	$ 2,059	$ 2,283	$ 2,568
Expected return on assets	(2,511)	(3,078)	(3,754)
Amortization of actuarial loss	1,865	2,427	1,766
Annuity contact premium adjustment	-	-	-
Settlement loss	3,087	5,192	2,704
Net pension cost	$ 4,500	$ 6,824	$ 3,284

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

Measurement Date	**December 31, 2016** 1/2/2016	**January 2, 2016** 1/3/2015	**January 3, 2015** 12/28/2013
Weighted average assumptions:			
Discount rate	3.66%	3.37%	4.02%
Expected return on assets	5.50%	5.50%	6.50%
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 12/31/2016	$ 3,952	$ (3,473)
2016 Pension income / (expense)	63	(62)
2016 Settlement income / (expense)	282	(278)
Total 2016 Pension income / (expense)	345	(340)
Sensitivity to expected return on assets:		
2016 Expected Return on Assets	$ (457)	$ 457

Plan Assets

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

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

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

Asset Category	Target	December 31, 2016	January 2, 2016
Domestic equities - Large cap	12.0%	12.4%	10.5%
Domestic equities - Mid cap	4.0%	3.8%	3.0%
Domestic equities - Small cap	2.0%	2.0%	1.5%
Foreign equities - International, Large cap	11.0%	9.5%	8.2%
Foreign equities - Emerging Markets, Large cap	6.0%	6.1%	6.6%
Real estate investment trusts	3.0%	3.1%	6.3%
Alternative investments - Commodities	3.0%	3.2%	4.5%
Fixed income - Investment grade	59.0%	58.3%	59.1%
Cash Equivalents	0.0%	1.6%	0.3%
Total	100.0%	100.0%	100.0%

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and January 2, 2016.

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.

($ in thousands)

Common Stock:

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

Fixed Income Securities:

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

Collective Trusts – Cash Equivalents:

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

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

The following tables set forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 31, 2016 and January 2, 2016.

Investments at Fair Value as of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Interest in registered investment companies:				
Domestic equities - Large cap	$ 4,956	$ -	$ -	$ 4,956
Domestic equities - Mid cap	1,525	-	-	1,525
Domestic equities - Small cap	800	-	-	800
Foreign equities - International, Large cap	3,780	-	-	3,780
Foreign equities - Emerging Markets, Large cap	2,417	-	-	2,417
Real estate investment trusts	1,226	-	-	1,226
Alternative investments - Commodities	1,292	-	-	1,292
Common Stock - Domestic - Small cap	2	-	-	2
Fixed income securities, Investment Grade:				
Corporate bonds	-	13,626	-	13,626
Government bonds and agency debt	8,393	-	-	8,393
Municipal bonds	-	1,038	-	1,038
Collective Trusts - Cash Equivalents	-	651	-	651
Total assets at fair value	$ 24,391	$ 15,315	$ -	$ 39,706

($ 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

Contributions

True Value expects to contribute $1,000 to its qualified pension plan and $487 to its SRP plan in 2017.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

	Benefits
2017	$ 7,269
2018	6,489
2019	5,282
2020	4,680
2021	4,482
2022-2026	18,920

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

	2016	2015
Measurement Date	12/31/2016	1/2/2016
Weighted average assumptions:		
Discount rate	3.55%	3.66%
Lump sum rate – current year	2.86%	3.03%
Lump sum rate – long term	4.50%	4.50%

The discount rate of 3.55% was primarily based on spot-yields as of December 31, 2016 from the Aon Hewitt AA Bond Universe Yield Curve. The Aon Hewitt AA Bond Universe Yield Curve was developed using high-quality corporate bonds.

The plan assumes a future lump sum conversion rate of 2.86% for 2017 distributions, 3.00% for 2018 distributions, 3.50% for 2019 distributions, and 4.00% for 2020 distributions, 4.50% for 2021 and thereafter, versus 3.03% for 2016 distributions, 3.50% for 2017 distributions, and 4.00% for 2018 distributions, and 4.50% for 2019 distributions and thereafter in the calculation of the PBO as of December 31, 2016 and January 2, 2016, 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 2016 the rate was 5.50%, which was not changed 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 defined benefit plans as of December 31, 2016 was approximately 8.07 years for the qualified plan and 3.48 for the SRP.

Multiemployer Pension Plan

As of December 31, 2016, the Company no longer participates in the Central States pension plan.

Through November 2016, True Value contributed to a multiemployer pension plan under the terms of a single collective-bargaining agreement that covered certain union-represented employees. The Company settled all pension liabilities associated with the Central States pension plan given its decision to outsource transportation services as part of its strategic plan. As of December 31, 2016, the Company has exited the plan and has satisfied all current liabilities associated with the Central States pension plan.

This plan provided retirement benefits to participants based on their service to contributing employers. The benefits were 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.

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 2016 and 2015, and $17.5 for 2014. 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 2016 and 2015, and $5.5 for 2014. The total participants' deferred compensation including True Value's contributions to the participants' balances may not exceed $53 for 2016 and 2015, $52 for 2014. True Value's 401k Plan included a 100% guaranteed match up to a total of 5% of the participant's annual compensation. Also, based on True Value achieving certain financial goals and at the discretion of the Board of Directors, an additional 1% of most participants' annual compensation could be earned. True Value recognized costs of $5,915, $6,058, and $5,890 for 2016, 2015 and 2014, respectively, for the 401k Plan. For 2016, 2015 and 2014, no discretionary components were earned.

14. Subsequent Events

True Value has determined as of March 9, 2017, 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 US LLP, independent auditors. Their accompanying report is based upon an audit conducted in accordance with auditing standards generally accepted in the United States of America.

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

TRUE VALUE COMPANY

John R. Hartmann
President and
Chief Executive Officer

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

Date: March 9, 2017