True Value COMPANY

FINANCIAL REPORT 2017

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

2017 Highlights:

True Value ("the Company") declared a patronage dividend of $23,600, an increase over the prior year of almost $500. In addition, the patronage dividend will be paid all in cash, which is an increase of over $2,300 compared to last year. True Value continued its execution of its strategic plan. The strategic plan is a long-term view to provide service and support to achieve retailer growth and profitability The Company's strategic plan focuses on initiatives that drive results in the three pillars of the plan: Engagement, Growth and Efficiency.

The Engagement initiatives focused on consumer and wholesale oriented results. From a consumer perspective, the Company rebranded the *EasyCare* product line by introducing the *EasyCare 365* product line and the re-labeling of the *EasyCare Ultra Premium* line as part of the 2-4-1 paint strategy, which includes two paint brands (*EasyCare* and *Coronado* by Benjamin Moore) and four price points using one color pallet. The new décor package with the carousel color center was launched at the Fall Reunion and was well received by retailers. From a wholesale perspective, paint sales to international retailers were up almost 40% as well as privately manufactured sales were up over 20% compared to the prior year.

There were several initiatives to support the Growth pillar this year. The Company's efforts to accelerate retail assortment reviews to provide relevant product and pricing from a wholesale and retail perspective resulted in the launch of 40 new Customized True Blue ("CTBs"). In 2017, there were over 17,000 CTBs adopted by the retailers, over a 55% increase from the prior year. The Company also completed several pricing line reviews on warehouse products to ensure competitive pricing at both the wholesale and consumer level. To improve retailer's profitability, True Value announced in 2017 that it will be eliminating the national advertising fee and related co-op advertising reimbursement program, effective April 1, 2018, and revising the marketing program so retailers can expand their digital marketing and customize promotions based on local market needs.

The Company experienced its second highest level of sales in the past decade with gross billings of $2,055,368. Gross billings had a slight decline of 0.9% from the prior year. Sales from Net New stores (sales from new stores compared to lost sales from terminated stores) was the main driver of the decrease. New ground-up store activity was consistent in both count and dollar volume to last year. However, due to competitors capitalizing on sale rumors, the Company experienced a lower level of conversions from other buying groups to True Value in the second half of 2017. The Company believes that our unique offering to help independent stores be the most relevant, and profitable they can be has not changed, so the Company is projecting that these conversions will improve in the future. Comparable store ("Comp store") sales were also down as weather related categories were lower by 1.6% compared to the prior year. Unfavorable weather patterns in the first half of the year were only partially offset by hurricane related emergency product sales in the third quarter. Comparable retail sales increased 0.8%, as reported by more than 1,700 retailers who provide point-of-sale data, while comparable Destination True Value ("DTV") retail sales increased 1.9%.

The Company's investments in the International and E-commerce Growth initiatives resulted in an increase in sales of almost 14% and 21%, respectively. In addition, the company continued to assist retailers in creating a relevant consumer experience through new store and remodels. The Company completed 69 ground-up stores representing over 540,000 square feet and 54 remodeled stores representing over 570,000 square feet. True Value issued $5,888 in interest-bearing loans to retailers to help them remodel, expand, relocate, or open new stores.

The Efficiency initiatives included continued efforts to upgrade the Company's information technology infrastructure and data recovery. The Company also launched the first phases of the network optimization project, which is a multi-year effort focused on aligning the network to support current and future operations. The first phase included a review of items in the Central Ship facility to reduce transportation costs and improve service, the implementation of a new demand planning system to improve inventory levels and forecasting, an assessment of inbound transportation activity to reduce transportation costs and the planning phase of the previously announced Hub and Spoke network model.

True Value's total strategic initiative investment required $24,808 of expense, including $9,605 of one-time spend, compared to 2016 total initiative expense of $18,786. Several projects contributed to the year-over-year increase including investments in projects such as information technology infrastructure and system stability, network optimization, and a product information management system. 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 plus the related depreciation expense.

True Value keeps its retailers' profitability, store profit and patronage dividend combined, at the forefront of management's decision making process and considers the combination of these items as one of our most important indicators of True Value's success.

Company Operations:

True Value sells hardware products and paint to a network of global independent retailers. As of year-end 2017, the Company served approximately 4,300 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.

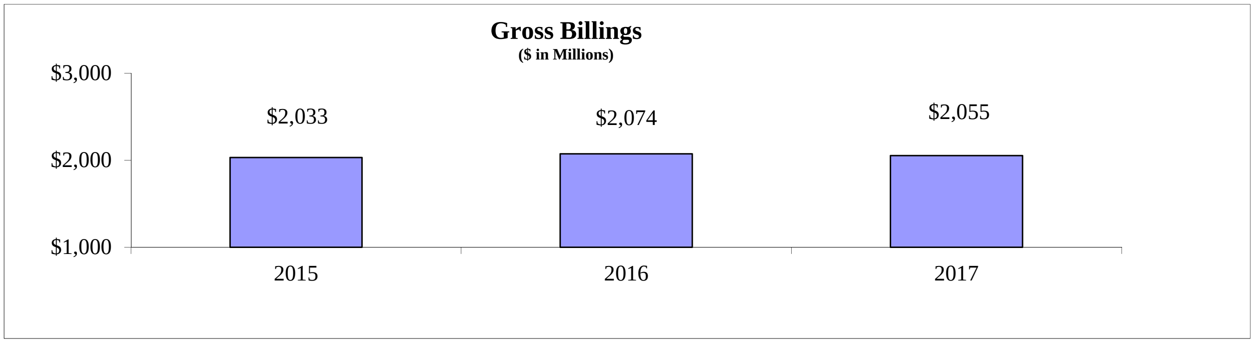
The following discussion summarizes the important factors to understand our results and performance in 2017. Management utilizes a variety of key measures to monitor the financial health of True Value's business, including Gross billings, Revenue, Comparable store sales, Revenue from net retailer growth, as well as Net margin.

Net Margin:

True Value's net margin was $24,754 compared to $23,689 in 2016. Both year's net margins included significant strategic plan investment expenses of $24,808 and $18,786 in 2017 and 2016, respectively. The Company also experienced higher gross margins and lower incentive compensation expense as a result of missing certain performance targets, partially offset by higher net logistics and manufacturing costs primarily due to higher labor and warehouse fixed costs as well as the network optimization initiative as mentioned above.

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.

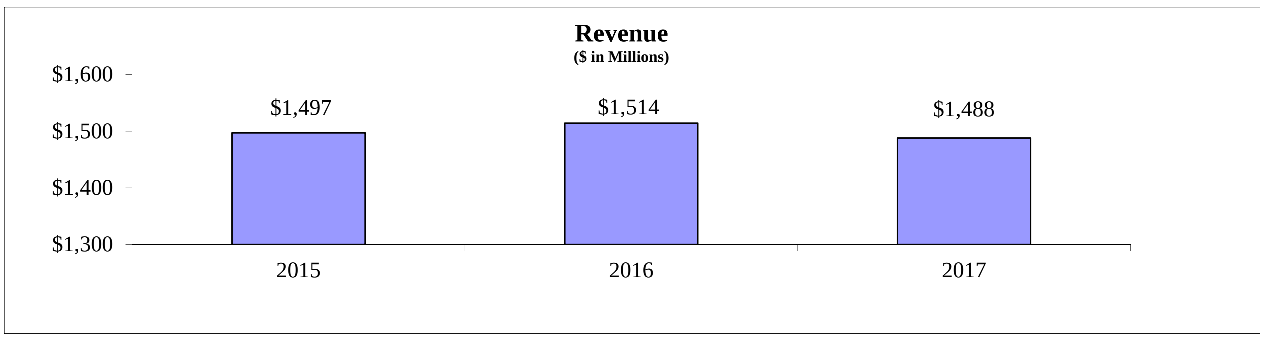


After six years of consecutive sales growth, the Company saw a slight decline in Gross billings, down $18,307 or 0.9%, to $2,055,368 in 2017, compared to $2,073,675 in 2016. Vendor direct billings increased by $6,304, or 1.1%, predominately due to growth of our International retailers. The warehouse gross billings decrease of $20,954, or 1.5%, was primarily due to lower net new store sales as well as lower Comp store sales.

Retail comparable store sales grew 0.8% based upon True Value supplied stock keeping units ("SKUs"), as reported by more than 1,700 stores. Sales at retail had increases across eight of the twelve regions in the country and six of nine merchandise categories, led by Hand and Power Tools.

Results of Operations for 2017 compared to 2016

Revenue



Revenue is the same as Gross billings except the vendor direct revenue is reduced by the vendor direct costs of revenue. In 2017, revenue decreased by $26,242, or 1.7%, to $1,487,864 compared to $1,514,106 in 2016. The decrease was primarily due to product sales related to the net change in participating retailers.

Net comp store warehouse revenue decreased by $3,025 or 0.2% in 2017. The decrease in wholesale product revenue was due to weather in certain areas of the country during the first half of the year, partially offset by a favorable impact from the hurricanes in the third quarter.

True Value signed 59 new core hardware stores in 2017 as well as an additional 27 domestic retailers converted from other buying groups. Also, 52 international and specialty stores signed with True Value in 2017. Sales to new retailers increased $29,579, or 1.9%. However, the net number of participating stores decreased by 81 to 4,311 from 4,392 at the end of 2016, and lost revenue from terminated stores of $47,508 exceeded revenue from new stores by $17,929 in 2017. This decrease was primarily driven by a lower level of conversions from other buying groups to True Value over the second half of 2017 as competitors capitalized on sale rumors over the summer.

Other revenue decreased by $3,656 or 0.2%, as compared to the prior year. The decrease was predominately due to lower transportation fees mainly resulting from both the lower warehouse sales volume and a reduction in retailer freight rates that was implemented in January 2017 in order to reduce retailers' overall costs.

($ in thousands)

A reconciliation of Revenue between 2017 and 2016 follows:

	Revenue	
2016 Revenue	$ 1,514,106	
Net comp store sales	(3,025)	(0.2%)
Change in participating retailers:		
Net new retailers	29,579	1.9%
Net terminated retailers	(47,508)	(3.1%)
Net change in participating retailers	(17,929)	(1.2%)
Vendor - direct revenue	(1,632)	(0.1%)
Other revenue	(3,656)	(0.2%)
Total change	(26,242)	(1.7%)
2017 Revenue	$ 1,487,864	
2017 Gross Billings	$ 2,055,368	

Gross Margin	2017	2016	$ Increase
For the Year Ended	$234,175	$231,418	$2,757
Percent to Revenue	15.7%	15.3%	
Percent to Gross Billings	11.4%	11.2%	

Gross margin increased by $2,757 or 1.2%, as compared to the prior year mainly driven by favorable warehouse margin rates and advertising margins, partially offset by the lower warehouse sales volume and transportation margin as discussed below.

- Warehouse product margin decreased by $2,106 mainly due to the lower sales volume, partially offset by higher margin rates.

- Advertising and reunion margin increased by $7,940. The improved advertising margin predominately resulted from lower national media spend.

- Transportation margin decreased by $5,795. The decrease was mainly due to lower transportation fees resulting from the reduction in retailer freight rates that were implemented in 2017. The transportation fees were also lower due to the unfavorable warehouse sales volume. In addition, transportation costs were unfavorable mainly from higher fuel prices, higher provider contract costs due to annual increases resulting from increases in the consumer price index, as well as additional route miles.

- Other miscellaneous margin items were favorable by $2,718.

Logistics and Manufacturing Expenses	2017	2016	$ Increase
For the Year Ended	$77,961	$75,502	$2,459
Percent to Revenue	5.2%	5.0%	
Percent to Gross Billings	3.8%	3.6%	

Logistics and manufacturing expenses increased by $2,459 or 3.3%, as compared to the prior year. The increase was primarily due to an increase in the warehouse labor rate and depreciation expense, as well as higher strategic spend related to the network optimization initiative. In addition, paint administrative expenses were also higher due to increased strategic investment spend. These increases were partially offset by a favorable impact from the lower warehouse volume, resulting in lower variable labor, and inventory capitalization calculation.

($ in thousands)

Selling, General and Administrative Expenses	2017	2016	$ Decrease
For the Year Ended	$120,786	$123,554	($2,768)
Percent to Revenue	8.1%	8.2%	
Percent to Gross Billings	5.9%	6.0%	

Selling, general and administrative ("SG&A") expenses decreased by $2,768, or 2.2%, as compared to the prior year. The decrease was primarily due to lower incentive compensation, partially offset by higher outside services.

Interest Expense	2017	2016	$ Increase
For the Year Ended - Retailers	$6,044	$5,976	$68
Percent to Revenue	0.4%	0.4%	
Percent to Gross Billings	0.3%	0.3%	
For the Year Ended – Third Parties	$9,856	$7,240	$2,616
Percent to Revenue	0.7%	0.5%	
Percent to Gross Billings	0.5%	0.3%	

Interest expense to retailers for the year ending December 30, 2017 of $6,044 was essentially flat to last year.

Third-party interest expense was higher in the current year by $2,616, or 36.1%, as compared to the prior year due to both a higher average interest rate and higher daily borrowings on the Bank Facility.

Net Margin	2017	2016	$ Increase
For the Year Ended	$24,754	$23,689	$1,065
Percent to Revenue	1.7%	1.6%	
Percent to Gross Billings	1.2%	1.1%	

The 2017 net margin of $24,754 increased by $1,065, or 4.5%, from the 2016 net margin of $23,689. The net margin increase was primarily driven by favorable gross margin and lower SG&A expenses, including favorable incentive expense, mostly offset by higher distribution costs and higher third-party interest expense.

($ in thousands)

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 retailer 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 retailers who provide point-of-sale data with increases across all departments except those with winter related goods.

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.

($ in thousands)

- 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 retailer 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.

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%	

($ in thousands)

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.

Liquidity and Capital Resources

Liquidity

As of December 30, 2017, True Value had $3,728 in cash and cash equivalents and $153,343 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 2018. 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 30, 2017, 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 2017 by extending the term to June 2022 and provided for an increase with a $30,000 bank term loan, which combined is the "Bank Facility". The term loan amortizes $1,500 quarterly and will be paid over the five year term of the Bank Facility. True Value has borrowed on its revolver in order to fund working capital, capital expenditures, patronage dividend payments and financing to its retailers for remodels and new stores. In recent years, the Company has invested heavily in capital expenditures, retailer financing notes and working capital as part of the strategic plan to provide for Engagement, Growth and Efficiency initiatives. The Company has $5,060 of outstanding letters of credits as of December 30, 2017.

Another component of True Value's working capital structure is its retailer notes. As of December 30, 2017, the Company had $131,292 in short and long-term retailer notes outstanding. Included in the retailer notes is a $28,114 tranche of primarily promissory notes payable in January 2018 related to 2009 patronage dividend notes issued in 2010 with a seven year term as well as installment and renewed promissory notes. 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 $15,666 and $15,721 as of December 30, 2017 and December 31, 2016, respectively. The Company contributed $1,320 and $203 in 2017 and 2016, 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 30, 2017 and December 31, 2016. The SRP has a liability of $2,175 and $2,311 as of December 30, 2017 and December 31, 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 in 2015 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 $49,104 in 2017 and $22,319 in 2016, respectively, after using cash for operating activities in 2015 of $34,645.

The increase in cash generated from operating activities in 2017 compared to 2016 was primarily due to the change in inventory and accrued expenses. The cash generated from accounts receivable was offset by the cash used for accounts payable. The accounts receivable was lower mainly due to the lower sales volume. Also, in line with our strategic initiatives, the inventory level dropped throughout 2017 compared to the stabilization of inventory in 2016 after the buildup in 2015.

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 2015. 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.

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 2017, 2016, and 2015 of $17,862, $24,082, and $16,034, respectively. Investing activities primarily consist of capital expenditures. The past three years reflect elevated levels of spending predominantly due to investments related to True Value's strategic plan such as the modernization of information technology infrastructure and improvements in the supply chain infrastructure.

Financing Activities

True Value used cash for its financing activities in 2017 of $31,561 compared to generating cash from its financing activities in 2016 and 2015 of $1,935 and $49,903, respectively. In 2017, True Value increased net borrowings on its Bank Facility and used cash from its operating activities to fund the payment of the patronage dividend, notes and long-term debt, and drafts payable. In 2016 and 2015, True Value increased borrowings from its revolving credit facility in the amount of $31,900 and $75,200, 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. True Value's revolver is anticipated to increase due to the large tranche of retailer notes due in January 2018 in the amount of $28,114 of which $9,621 is expected to be renewed.

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, which were issued in 2010, had a seven year term and are payable at the beginning of True Value's fiscal year 2018. Patronage dividend notes for 2010, which were issued in 2011, had a term increase of one year and thus had an eight year maturity and are payable at the beginning of True Value's fiscal year 2020. Therefore, there are no patronage dividend notes payable in 2019.

($ in thousands)

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 30, 2017, including capital leases, and the effect such obligations will have on liquidity and cash flow in future periods.

	2018	2019	2020	2021	2022	Thereafter
Bank term loan	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 3,000	$ -
Real estate mortgage	1,186	1,269	1,357	1,452	1,552	5,336
Subordinated promissory and subordinated promissory installment notes	35,628	25,192	4,767	22,516	22,074	21,115
Capital leases	2,615	2,608	2,490	2,092	1,505	993
Net minimum payments	$ 45,429	$ 35,069	$ 14,614	$ 32,060	$ 28,131	$ 27,444

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 30, 2017, accounts and short-term notes receivable, net of $4,907 in allowance for doubtful accounts, was $247,024; retailer long term notes receivable net of $1,981 in allowance for doubtful accounts was $39,649. 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 as well as achievement of higher incentive tiers. 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 30, 2017, vendor funds related to unpaid amounts for the rebate programs were included in the vendor and other accounts receivable amount of $27,205.

- *Inventories, net of valuation reserves* – At December 30, 2017, inventories were $366,297, net of $19,481 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 net realizable value considers the estimated realizable value in the current economic environment associated with disposing of surplus and/or damaged/obsolete inventories. True Value estimated net 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 30, 2017 and December 31, 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, approach.

  For fiscal years 2016 and 2017, 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 2017 and determined there was no impairment and therefore the quantitative approach was not necessary.

- *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. True Value carries a policy that has a $500 stop loss, per person per year.

- *Deferred taxes* – In 2017 the Company adopted Accounting Standard Update ("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 adoption of this change would not have resulted in a creation of a deferred tax asset or liability were it not for The Tax Cut and Jobs Act which allows True Value to recover an outstanding Federal AMT credit. This Act change resulted in the release of the valuation allowance for this AMT tax credit and the subsequent creation of the long-term deferred tax asset on our 2017 financials.

At December 30, 2017, True Value had approximately $12,899 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 30, 2017, True Value concluded that, based on the weight of available evidence, it is more likely than not that the deferred tax assets, excluding our Alternative Minimum Tax ("AMT") credit, 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 30, 2017, the funded status of the defined benefit plans was a liability of $15,666. 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 2016 and 2017, 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 decrease the total combined qualified pension and SRP expense by $283, including the settlement expense. A one-percentage-point increase in the expected return on assets would decrease pension expense by $383.

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 retailer 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.

Interest Rate Risk

The Company has exposure to fluctuations in interest rates on its Bank Facility and on its Retailer notes receivables. A one percentage point change in interest rates would net approximately $2,000 of interest expense or savings.

RSM

Independent Auditor's Report

RSM US LLP

To the Board of Directors and Members of
True Value Company

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 30, 2017 and December 31, 2016, the related consolidated statements of comprehensive income, retailers' equity and cash flows for each of the three years ended December 30, 2017, December 31, 2016, and January 2, 2016, 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 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 30, 2017 and December 31, 2016, and the results of its operations and its cash flows for the three years ended December 30, 2017, December 31, 2016, and January 2, 2016, in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Schaumburg, Illinois
March 2, 2018

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

	December 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,728	$ 4,047
Accounts and notes receivable, net of allowance for doubtful accounts of $4,907 and $5,678	247,024	257,056
Vendor and other accounts receivables	27,205	33,295
Inventories, net of valuation reserves of $19,481 and $20,046	366,297	382,353
Prepaid expenses and other current assets	24,282	23,550
Total current assets	668,536	700,301
Long-term assets:		
Property, plant and equipment, net	96,623	89,731
Goodwill, net	78,429	78,429
Retailer notes receivable, net of allowance for doubtful accounts of $1,981 and $888	39,649	41,468
Other assets, net of allowance for doubtful accounts of $702 and $476	29,643	24,903
Total assets	$ 912,880	$ 934,832
LIABILITIES AND RETAILERS' EQUITY		
Current liabilities:		
Accounts payable	$ 234,430	$ 249,515
Drafts payable	12,091	27,126
Accrued expenses	69,254	67,701
Revolving credit facility	182,400	204,700
Current maturities of long-term bank debt, term loan	6,000	-
Current maturities of long-term debt, retailer notes	35,628	29,455
Current maturities of long-term third-party debt	3,801	2,501
Patronage dividend payable in cash	19,062	17,343
Total current liabilities	562,666	598,341
Long-term liabilities and deferred credits:		
Long-term bank term loan debt, less current maturities	21,000	-
Long-term retailer notes, less current maturities	95,664	94,047
Long-term third-party debt, less current maturities	20,654	17,511
Deferred gain on sale leaseback	11,113	13,891
Pensions	15,415	15,473
Other long-term liabilities	25,972	25,516
Total long-term liabilities and deferred credits	189,818	166,438
Total liabilities and deferred credits	752,484	764,779
Retailers' equity:		
Redeemable Class A voting common stock, $100 par value; 750,000 shares authorized; 220,320 and 228,300 shares issued and fully paid	22,032	22,830
Redeemable qualified Class B nonvoting common stock and paid-in capital, $100 par value; 4,000,000 shares authorized; 1,629,574 and 1,747,881 shares issued and fully paid	164,256	176,087
Redeemable nonqualified Class B nonvoting common stock, $100 par value; 110,935 and 119,282 shares issued and fully paid	11,094	11,928
Deferred patronage	(14,579)	(15,326)
Accumulated deficit	(4,843)	(5,250)
Accumulated other comprehensive loss	(17,564)	(20,216)
Total retailers' equity	160,396	170,053
Total liabilities and retailers' equity	$ 912,880	$ 934,832

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 30, 2017	December 31, 2016	January 2, 2016
Gross billings	$ 2,055,368	$ 2,073,675	$ 2,033,196
Revenue	$ 1,487,864	$ 1,514,106	$ 1,497,228
Cost of revenue	1,253,689	1,282,688	1,291,684
Gross margin	234,175	231,418	205,544
Operating expenses:			
Logistics and manufacturing expenses	77,961	75,502	65,783
Selling, general and administrative expenses	120,786	123,554	112,890
Other income, net	(4,736)	(4,583)	(4,154)
Operating income	40,164	36,945	31,025
Interest expense to retailers	6,044	5,976	6,131
Third-party interest expense	9,856	7,240	5,817
Net margin before income taxes	24,264	23,729	19,077
Income tax (benefit) / expense	(490)	40	35
Net margin	$ 24,754	$ 23,689	$ 19,042
Other comprehensive income / (loss):			
Pension liability adjustment for deferred actuarial income	2,488	1,989	3,589
Post-retirement liability for deferred actuarial (loss)	(195)	(202)	(163)
Other income	359	89	172
Comprehensive income	$ 27,406	$ 25,565	$ 22,640

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 30, 2017	December 31, 2016	January 2, 2016
Operating activities:			
Net margin	$ 24,754	$ 23,689	$ 19,042
Adjustments to reconcile net margin to net cash and cash equivalents provided by / (used for) operating activities:			
Depreciation and amortization	27,506	24,591	20,436
Provision to allowance for doubtful accounts	1,969	3,150	2,988
Provision for inventory reserves	9,109	10,416	15,464
Loss on disposal and sale of assets	20	129	200
Amortization of deferred gain on sale leaseback	(2,778)	(2,778)	(2,778)
Changes in operating assets and liabilities:			
Accounts, vendor and other receivables	(6,608)	(31,617)	(36,513)
Inventories	6,946	(4,990)	(41,088)
Other current assets	(2,267)	(4,091)	(62)
Accounts payable	(15,829)	6,101	(2,350)
Accrued expenses	5,758	(6,598)	(11,007)
Pension	2,652	4,296	1,103
Other adjustments, net	(2,128)	21	(80)
Net cash and cash equivalents provided by / (used for) operating activities	49,104	22,319	(34,645)
Investing activities:			
Additions to property, plant & equipment	(21,026)	(26,598)	(17,834)
Proceeds from sale of properties	2	9	79
Proceeds from collection of notes	3,162	2,507	1,721
Net cash and cash equivalents used for investing activities	(17,862)	(24,082)	(16,034)
Financing activities:			
Payment of patronage dividend	(15,617)	(14,073)	(16,970)
Payment of retailer notes and third-party debt	(3,776)	(10,322)	(8,891)
(Decrease) / increase in drafts payable	(15,035)	(4,773)	1,029
(Decrease) / increase in revolving credit facility, net	(22,300)	31,900	75,200
Proceeds from bank term loan	27,000	-	-
Payment of debt issuance costs	(1,186)	-	-
Proceeds from sale of Redeemable Class A common stock and subscriptions receivable	696	888	1,008
Purchase of Class A and Class B common stock	(1,343)	(1,685)	(1,473)
Net cash and cash equivalents (used for) / provided by financing activities	(31,561)	1,935	49,903
Net (decrease) / increase in cash and cash equivalents	(319)	172	(776)
Cash and cash equivalents at beginning of year	4,047	3,875	4,651
Cash and cash equivalents at end of year	$ 3,728	$ 4,047	$ 3,875

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

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

	Redeemable Common Stock							
	Class A		Class B					
	# of Shares	Amount	# of Shares	Amount	Deferred Patronage	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Retailers' Equity
Balances at and for the year ended January 3, 2015	**235,920**	**$ 23,592**	**2,069,106**	**$ 208,209**	**$ (16,821)**	**$ (4,331)**	**$ (25,690)**	**$ 184,959**
Net margin	-	-	-	-	-	19,042	-	19,042
Reclass stock presented for redemptions to liabilities	(13,320)	(1,314)	(112,198)	(11,219)	-	-	-	(12,533)
Amortization of deferred patronage	-	-	-	-	747	(748)	-	(1)
Patronage dividend	-	-	-	-	-	(19,040)	-	(19,040)
Class A stock purchases	10,260	1,008	-	-	-	-	-	1,008
Other comprehensive income, net	-	-	-	-	-	-	3,598	3,598
Balances at and for the year ended January 2, 2016	**232,860**	**23,286**	**1,956,908**	**196,990**	**(16,074)**	**(5,077)**	**(22,092)**	**177,033**
Net margin	-	-	-	-	-	23,689	-	23,689
Reclass stock presented for redemptions to liabilities	(14,100)	(1,344)	(108,196)	(10,820)	-	-	-	(12,164)
Amortization of deferred patronage	-	-	-	-	748	(748)	-	-
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**
Net margin	-	-	-	-	-	24,754	-	24,754
Reclass stock presented for redemptions to liabilities	(16,380)	(1,494)	(126,654)	(12,665)	-	-	-	(14,159)
Amortization of deferred patronage	-	-	-	-	747	(747)	-	-
Patronage dividend	-	-	-		-	(23,600)	-	(23,600)
Class A stock purchases	8,400	696	-	-	-	-	-	696
Other comprehensive income, net	-	-	-	-	-	-	2,652	2,652
Balances at and for the year ended December 30, 2017	**220,320**	**22,032**	**1,740,509**	**175,350**	**(14,579)**	**(4,843)**	**(17,564)**	**160,396**

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

1. Description of Business and Accounting Policies

Principal Business Activity

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

Consolidation

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

Reporting Year

True Value's fiscal year ends the Saturday closest to December 31. Fiscal years 2017, 2016 and 2015 ended on December 30, 2017, December 31, 2016, and January 2, 2016, respectively. Fiscal years 2017, 2016, and 2015 all contained 52 weeks.

Reclassifications and Adjustments

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

Use of Estimates

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

Cash 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 30, 2017 allowance was $7,590 compared to the allowance as of December 31, 2016 of $7,042. 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 as well as achievement of higher incentive tiers. 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 30, 2017 and December 31, 2016, vendor funds related to unpaid amounts for the rebate programs were included in the vendor and other accounts receivable of $27,205 and $33,295, respectively.

Inventories

Merchandise inventory is stated at the lower of cost, determined on the first-in, first-out basis, or net realizable 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 net realizable value. The lower of cost or net realizable value considers the estimated realizable value in the current economic environment associated with disposing of surplus and/or damaged/obsolete inventories. In 2017, True Value adopted Accounting Standard Update ("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.

True Value's ending 2017 inventory valuation reserve was $19,481, a decrease of $565 from the ending 2016 reserve of $20,046. 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.

($ in thousands)

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 30, 2017 and December 31, 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).

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 approach.

For fiscal years 2016 and 2017, 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 2017 and determined there was no impairment and therefore the quantitative approach was not necessary.

Accumulated other comprehensive loss

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

	December 30, 2017		December 31, 2016	
Pension	$	18,672	$	21,160
Post retirement		(749)		(944)
Other		(359)		-
	$	17,564	$	20,216

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 $588,825, $582,521, and $558,687 for 2017, 2016 and 2015, 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 $53,076 and $54,957 for 2017, respectively, $53,940 and $58,459 for 2016, respectively, and $49,696 and $60,506 for 2015, 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 $25,519, $35,023, and $44,420 in 2017, 2016 and 2015, 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 $1,211, $1,075, and $1,337 in 2017, 2016 and 2015, 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. True Value carries a policy that has a $500 stop loss, per person per year.

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 30, 2017 and 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, excluding our Alternative Minimum Tax ("AMT") credit, 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 30, 2017 and December 31, 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 2012 and prior. True Value is still subject to state audits in eight states for its tax year 2013 and remains open to audit for most jurisdictions for years subsequent to 2014.

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 30, 2017 and December 31, 2016, the funded status of the qualified pension plan was a liability of $13,492 and $13,410. 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 2016 and 2017, 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 decrease the 2017 total qualified pension expense by $266, including the settlement expense. A one-percentage-point increase in the expected return on assets would decrease the 2017 pension expense by $383.

The supplemental retirement plan ("SRP") is an unfunded nonqualified defined benefit plan. Since the SRP is an unfunded plan, there were no plan assets at December 30, 2017 and December 31, 2016. The unfunded status of the SRP was a liability of $2,175 and $2,311 as of December 30, 2017 and December 31, 2016, respectively. In addition, the Company has a liability for postretirement benefits of $812 as of December 30, 2017 and $791 as of December 31, 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 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 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 March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Under existing generally accepted accounting principles, an entity is required to present all components of net periodic pension cost and net periodic postretirement benefit cost aggregated as a net amount in the income statement, and this net amount may be capitalized as part of inventory where appropriate. The amendment requires the disaggregation of net benefit cost. The service cost component will be presented with the other employee compensation costs in operating income, and eligible for capitalization into Inventory where appropriate. The other components will be reported separately outside of operations, and will not be eligible for capitalization. The amendment is effective for non-public entities for annual reporting periods beginning after December 15, 2018. Early adoption is permitted as of the beginning of any annual period for which an entity's financial statements (interim or annual) have not been issued or made available for issuance. The guidance is required to be applied on a retrospective basis for the presentation of the service cost component and the other components of net benefit cost, and on a prospective basis for the capitalization of only the service cost component of net benefit cost. The Company has no service cost component in its net benefit cost. For the effect of the remaining components of net periodic pension costs, 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.

Adopted Accounting Pronouncements

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. True Value adopted this standard in 2017 and recorded a reduction of inventory of approximately $300 in its 2017 Consolidated Balance Sheet and a related increase to cost of goods sold in its Consolidated Statement of Comprehensive Income.

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. True Value adopted this standard in 2017 and there was no financial statement impact since the financial markets were closed on December 30, 2017 and December 31, 2017.

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. True Value adopted this standard in 2017 and has reported this prospectively as allowed by the standard and did not restate 2016. The adoption of this change would not have resulted in a creation of a deferred tax asset or liability were it not for The Tax Cut and Jobs Act which allows True Value to recover an outstanding Federal AMT credit. This Act change resulted in the release of the valuation allowance for this AMT tax credit and the subsequent creation of the long-term deferred tax asset on our 2017 financials.

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. True Value adopted this standard in 2017 and complied with the pronouncement's guidelines for goodwill evaluation.

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' cash and promissory note 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 payment schedule 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 30, 2017, True Value had $51,346 in loans outstanding, before patronage dividend offsets, at an average interest rate of 3.54% and $3,517 in unamortized discount remaining. At December 31, 2016, True Value had $57,083 in loans outstanding, before patronage dividend offsets, at an average interest rate of 2.80% and $5,143 in unamortized discount remaining. During 2017 and 2016, $1,299 and $1,511, respectively, of discount was recognized as a reduction of revenue and $1,101 and $1,643, 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 $9,166 and $8,898 as of December 30, 2017 and December 31, 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 30, 2017		December 31, 2016	
Notes receivable, gross	$	60,512	$	65,981
Less estimated patronage applications		4,538		3,926
Net		55,974		62,055
Less current portion		14,344		19,699
Less allowance for doubtful accounts		1,981		888
Notes receivable, net	$	39,649	$	41,468

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 30, 2017 and December 31, 2016 was as follows:

	December 30, 2017		December 31, 2016	
Notes receivable				
Ending balance individually evaluated for impairment	$	14,275	$	13,356
Ending balance collectively evaluated with no impairment		46,237		52,625
Ending principal balance	$	60,512	$	65,981

True Value has evaluated the collectability of the accounts and notes receivable and has established an allowance for doubtful accounts of $7,590 and $7,042 at December 30, 2017 and December 31, 2016, respectively. The allowances include reserves on certain retailer agreements of $702 and $476 at December 30, 2017 and December 31, 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 2017 and 2016 were as follows:

($ in thousands)

	December 30, 2017	December 31, 2016
Allowance for doubtful accounts		
Beginning balance	$ 7,042	$ 5,729
Provision	1,969	3,150
Net write-off	(1,421)	(1,837)
Ending Balance	7,590	7,042
Reclass to current	(4,907)	(5,678)
Long term allowance for doubtful accounts	$ 2,683	$ 1,364

The degree of credit risk assessed on accounts and notes receivables and the related allowance for doubtful accounts for 2017 and 2016 were as follows:

	Accounts and Notes Receivable, Gross	Allowance for Doubtful Accounts
December 30, 2017		
Low	$ 272,172	$ 647
Medium	18,861	4,242
High	2,528	1,999
Total	$ 293,561	$ 6,888
December 31, 2016		
Low	$ 292,394	$ 1,518
Medium	8,863	2,051
High	3,833	2,997
Total	$ 305,090	$ 6,566

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 30, 2017	December 31, 2016
Manufacturing inventories:		
Raw materials	$ 4,193	$ 5,304
Work-in-process and finished goods	25,791	23,638
Manufacturing inventory reserves	(1,114)	(1,304)
	28,870	27,638
Merchandise inventories:		
Warehouse inventory	355,794	373,457
Merchandise inventory reserves	(18,367)	(18,742)
	337,427	354,715
	$ 366,297	$ 382,353

($ in thousands)

The amount of direct and indirect acquisition costs included in ending inventory was $25,258 and $24,982 at December 30, 2017 and December 31, 2016, respectively.

4. Property, Plant & Equipment

Property, Plant & Equipment consisted of the following at:

	December 30, 2017	December 31, 2016
Buildings and improvements	$ 108,243	$ 103,773
Machinery and warehouse equipment	83,127	80,418
Office and computer equipment, and software	190,533	178,477
Transportation equipment	17,623	18,507
	399,526	381,175
Less: accumulated depreciation	(305,243)	(293,784)
	94,283	87,391
Land	2,340	2,340
	$ 96,623	$ 89,731

Assets under capital leases included in Property, Plant and Equipment, net of amortization, totaled $12,510 and $6,806 at December 30, 2017 and December 31, 2016, respectively. Depreciation expense, which includes amortization of capital leases, for 2017, 2016 and 2015, was $19,708, $16,734 and $14,845, 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 $7,085, $6,327 and $5,372 for 2017, 2016 and 2015, 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 $27,611 and $21,573 at the end of 2017 and 2016, respectively.

5. Accrued Expenses

Accrued expenses consisted of the following at:

	December 30, 2017	December 31, 2016
Payroll and related taxes and benefits	$ 18,919	$ 25,742
Unearned revenue	10,365	9,275
Warehouse & Transportation	7,095	7,508
Advertising	6,756	4,426
Liability insurance	3,542	3,223
Interest	3,153	258
Gift card	2,031	1,898
Other	17,393	15,371
	$ 69,254	$ 67,701

($ in thousands)

6. Debt Arrangements

Long-term debt consisted of the following at:

	December 30, 2017	December 31, 2016
Bank term loan	$ 27,000	$ -
Real estate mortgage	12,152	13,261
Capital leases	12,303	6,751
Total third-party debt	51,455	20,012
Subordinated promissory and subordinated promissory installment notes	131,292	123,502
	182,747	143,514
Less: amounts due within one year	(45,429)	(31,956)
	$ 137,318	$ 111,558

The weighted average of stated interest rates on total debt was 3.96% and 3.42% as of December 30, 2017 and December 31, 2016, respectively.

Bank Facility

In the second quarter 2017, True Value increased and extended its senior secured revolving credit facility to mature in June 2022 and provided for an increase by adding a $30,000 bank term loan to the facility, which combined is the “Bank Facility”. The credit line on the revolving portion is limited to the lower of $450,000 or the monthly collateral value of a majority of True Value’s assets. The term loan amortizes $1,500 quarterly and will be paid over the five year term of the Bank Facility. True Value's availability on the revolving credit facility as of December 30, 2017 and December 31, 2016 was $153,343 and $145,657, respectively, after taking into account outstanding letters of credit of $5,060 and $7,603, respectively. The Bank Facility imposes administrative requirements which take effect if availability falls below designated thresholds.

At December 30, 2017 and December 31, 2016, True Value had $209,400 and $204,700 in Bank Facility loans outstanding, respectively. As of December 30, 2017 and December 31, 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 2.9% and 2.1%, respectively. The average year-to-date fees charged for use of the Bank Facility in 2017 and 2016 were 0.1% and 0.2%, respectfully.

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 30, 2017, 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 30, 2017 of $12,152 and at December 31, 2016 of $13,261. The Mortgage is a 20-year fully amortizing loan at a fixed rate of 6.74% with a maturity date of January 1, 2026.

Subordinated Promissory and Subordinated Promissory Installment Notes

Subordinated promissory notes are issued from time to time for partial payment of the annual patronage dividend. Subordinated promissory notes are subordinated to indebtedness to banking institutions, trade creditors and other indebtedness of True Value as specified by its Board of Directors. True Value has typically offered the retailers who own the subordinated promissory notes with a scheduled maturity in the current year, the option to extend the maturity of their notes at a new rate and term. In 2017, notes maturing in June were extended for an additional six months at a rate of 2.0% and approximately 90% of the maturing note values were renewed. Since True Value's fiscal year ended December 30, 2017 the notes maturing December 31, 2017 fall into True Value's fiscal year 2018 and therefore are included in the 2017 Consolidated Balance Sheet. The payments and rollover will be made in 2018. 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. True Value has not determined if it will offer retailers with subordinated promissory notes maturing after December 2017 a renewal option or redemption at maturity.

($ in thousands)

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

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

	December 30, 2017	December 31, 2016
Subordinated promissory notes at interest rates from 2.00% to 5.50%, maturing from 2017 to 2024	$ 101,592	$ 105,025
Subordinated promissory installment notes at interest rates from 1.76% to 2.94%, maturing from 2017 to 2021	27,093	16,604
Accrued stock redemption liability	2,607	1,873
	131,292	123,502
Less: amounts due within one year	(35,628)	(29,455)
	$ 95,664	$ 94,047

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 shown below is based on calendar year:

	2018	2019	2020	2021	2022	Thereafter
Bank term loan	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 3,000	$ -
Real estate mortgage	1,186	1,269	1,357	1,452	1,552	5,336
Subordinated promissory and subordinated promissory installment notes	35,628	25,192	4,767	22,516	22,074	21,115
Capital leases	2,615	2,608	2,490	2,092	1,505	993
Net minimum payments	$ 45,429	$ 35,069	$ 14,614	$ 32,060	$ 28,131	$ 27,444

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, which were issued in 2010, had a seven year term and are payable at the beginning of True Value's fiscal year 2018. Patronage dividend notes for 2011, which were issued in 2012, had a term increase of one year and thus had a nine year maturity. Therefore, there are no patronage dividend notes payable in 2020 leaving only promissory installment note due.

($ in thousands)

7. Lease Commitments

True Value is a lessee of distribution centers, office space, and computer, manufacturing and transportation equipment under operating and capital leases. The following is a schedule of future minimum lease payments under capital which is included under property, plant and equipment, net on the Balance Sheet and long-term non-cancelable operating leases (including sale leasebacks) as of December 30, 2017.

	Capital	Operating
2018	$3,177	$29,285
2019	3,039	29,151
2020	2,791	29,726
2021	2,276	24,910
2022	1,592	23,196
Thereafter	1,032	18,265
Net minimum payments	13,907	154,533
Less amount representing interest	(1,604)	
Present value of net minimum lease payments	12,303	
Less amount due within one year	(2,615)	
	$9,688	

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 $30,067, $30,361 and $33,299 for the years ended December 30, 2017, December 31, 2016 and January 2, 2016, respectively. Long-term deferred rent of $15,676 and $14,761 at December 30, 2017 and December 31, 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 30, 2017 and December 31, 2016, the balance of the deferred gain was $13,891 and $16,669, 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 2016 and 2017 the rate was 2.73% and 2.94%, respectively, and for 2018 the rate will be 3.25%. 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 2016 patronage dividend that was paid in 2017, the Board of Directors determined that a reserve against the net patronage source income was not warranted. For the 2017 patronage dividend that will be paid in 2018, the Board of Directors determined that a reserve against the net patronage source income of approximately $400 was warranted.

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 an approximately 90% cash payment of the 2016 patronage dividend and a 100% cash payment of the 2017 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 2017 patronage dividend before the application of set-off rights will be $23,600 compared to 2016 of $21,269.

Total patronage dividends related to the year ended December 30, 2017, will be $23,600. After applying set-off rights to retailers with outstanding loans or payments owed, True Value expects to pay $19,062 of the dividend in cash, less any additional set-off rights for receivables at the time of the patronage dividend disbursement. Patronage dividends of $23,114 related to the year ended December 31, 2016, were paid in March 2017 and patronage dividends of $19,040 related to the year ended January 2, 2016, were paid in March 2016; approximately 90% of which was paid in cash prior to any application of set-off rights for 2016 and 100% of which was paid in cash prior to any application of set-off rights for 2015. The remainder of the 2016 patronage dividend was paid through the issuance of True Value’s Redeemable qualified Class B nonvoting common stock.

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 30, 2017, True Value had outstanding letters of credit in the amount of $5,060.

($ in thousands)

11. Income Taxes

Income tax (benefit) / expense consisted of the following for fiscal years ended:

	December 30, 2017	December 31, 2016	January 2, 2016
Current:			
Federal	$ -	$ -	$ -
State	18	40	35
Total current	18	40	35
Deferred:			
Federal	(508)	-	-
State	-	-	-
Total deferred	(508)	-	-
	$ (490)	$ 40	$ 35

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% for fiscal years ending December 30, 2017, December 31, 2016 and January 2, 2016:

	December 30, 2017	December 31, 2016	January 2, 2016
Tax at statutory rate	$ 8,494	$ 8,343	$ 6,715
Effects of:			
Patronage dividend	(8,522)	(8,352)	(6,926)
State income taxes, net of federal benefit	14	26	23
Decrease in valuation allowance	(709)	(230)	(13)
Other, net	233	253	236
	$ (490)	$ 40	$ 35

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, excluding our AMT credit, 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.

True Value has evaluated the income tax effects of all tax provisions included in the The Tax Cuts and Jobs Act in the United States ("Tax Reform"). The Tax Reform was signed into law in December 2017 and lowered the federal statutory income tax rate to 21 percent from 35 percent, effective January 1, 2018. This new federal statutory rate is reflected in the value of True Value's 2017 ending deferred tax balances as December 30, 2017. The Tax Reform Act also changed the valuation interpretation of True Value's Federal AMT credit. The passage of the Act made this credit highly certain to be realized, thus the valuation allowance related to this credit has been released and a deferred tax asset was recorded in Other assets under the long term section of the Consolidated Balance Sheet. As reflected below, this has resulted in a $508K income tax benefit to True Value as December 30, 2017.

($ in thousands)

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

	December 30, 2017	December 31, 2016
Deferred tax assets:		
Net operating loss carryforwards	$ 3,482	$ 4,839
AMT credit carryforward	508	541
Nonqualified notices of allocation	2,995	4,771
Vacation pay	861	1,685
Deferred gain	3,751	6,668
Severance and restructuring costs	1,056	1,687
Reserves and accruals	5,563	6,423
Rent expense	1,666	1,516
Inventory capitalization	199	909
Bad debt expense	2,049	2,817
Other	3,468	3,770
Total deferred tax assets	25,598	35,626
Valuation allowance for deferred tax assets	(18,627)	(28,719)
Net deferred tax assets	6,971	6,907
Deferred tax liabilities:		
Tax depreciation in excess of book	5,370	3,721
Contributions to fund retirement plans	711	2,024
Other	382	1,162
Net deferred tax liabilities	6,463	6,907
Net deferred tax assets	$ 508	$ -

($ in thousands)

12. Supplemental Cash Flow Information

The annual patronage dividend is satisfied through cash payments and, when applicable, the 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 30, 2017	December 31, 2016	January 2, 2016
Distribution of annual patronage dividend:			
Patronage dividend payable in cash	$ 19,062	$ 17,343	$ 15,408
Redemption of retail growth notes	4,538	3,926	3,632
Cash Portion	23,600	21,269	19,040
Issuance of Redeemable Class B nonvoting common stock	-	1,845	-
Total Patronage Dividend	$ 23,600	$ 23,114	$ 19,040

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 2017 and 2016 of $14,159 and $12,164, respectively, against obligation owed by the retailer to True Value of $67 and $1,212. The remaining amount due to retailers was partially satisfied with subordinated promissory installment notes of $12,749 and $9,266 in 2017 and 2016, 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 2017, 2016 and 2015, set off $11,030, $9,364 and $11,310, 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 2017, 2016 and 2015, True Value extended subordinated promissory notes, at the option of the retailer, in the amounts of $5,508, $6,148 and $6,827, respectively.

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 2017, 2016 and 2015 were $5,888, $12,014 and $17,576, respectively.

True Value also had noncash financing and investing activities by entering into capital leases in the amount of $7,594, $7,419 and $523 for 2017, 2016 and 2015, respectively. 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 2017, 2016 and 2015 totaled $14,488, $11,709 and $10,673, respectively. Cash paid for state income taxes during 2017, 2016 and 2015 totaled $29, $51 and $36, respectively.

($ in thousands)

13. Benefit Plans

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

	December 30, 2017	December 31, 2016
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 55,427	$ 59,517
Service cost	-	-
Interest cost	1,864	2,059
Benefit payments	(647)	(528)
Actuarial loss	3,149	2,264
Settlements	(5,776)	(7,885)
Projected benefit obligation at end of year	54,017	55,427
Change in plan assets:		
Fair value of plan assets at beginning of year	39,706	46,104
Actual return on assets	3,748	1,812
Employer contributions	1,320	203
Benefit payments	(647)	(528)
Settlements	(5,776)	(7,885)
Fair value of plan assets at end of year	38,351	39,706
Reconciliation of funded status:		
Unfunded status at end of fiscal year	(15,666)	(15,721)
Actuarial loss:		
Prior year balance	21,160	23,149
Current year amortization	(1,852)	(1,865)
Current year settlement impact	(2,043)	(3,087)
Loss arising during current period	1,407	2,963
Actuarial loss	18,672	21,160
Net amount recognized	$ 3,006	$ 5,439

The Accumulated Benefit Obligation (“ABO”) for True Value administered pension plans was $54,017 and $55,427 at December 30, 2017 and December 31, 2016, respectively.

As of December 31, 2016, the pension plans had unrecognized actuarial losses of $21,160. The major sources of actuarial losses under the plans are related to increase in liabilities due to decreases in discount rates, changes in the mortality table assumption, and plan demographic experience. Actuarial losses are amortized using the minimum amortization methodology as described in ASC 715-30, "Defined Benefit Plans - Pensions". At December 30, 2017, unrecognized actuarial losses decreased $2,488 to $18,672. Major sources of this change that occurred during 2017 resulted from a decrease in the discount rate during 2017 which resulted in a loss of $987. Changes in the lump sum conversion rate generated a loss of $981. There was also a demographic loss of $1,262. However, changes in the mortality tables led to a gain of $82. Additionally, there was a gain of $1,741 due to higher plan asset returns compared to the expected long term return. A decrease resulting from actuarial losses recognized under ASC 715-30 settlement accounting of $2,043 and amortization of actuarial losses recognized of $1,852 further decreased the total unrecognized actuarial losses. 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 $2,175 and $2,311 as of December 30, 2017 and December 31, 2016, respectively. Since the SRP is an unfunded plan, there were no plan assets at December 30, 2017 and December 31, 2016.

At December 30, 2017, True Value recorded in the Pensions and Accrued expenses lines of the Consolidated Balance Sheet a net unfunded PBO of $15,666 for all True Value administered pension plans. The unrecognized actuarial loss for both plans of $18,672 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 2018 resulting from recognition of deferred actuarial losses from amortization and settlements is $3,783.

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

	December 30, 2017	December 31, 2016	January 2, 2016
Components of net periodic cost:			
Interest cost	$ 1,864	$ 2,059	$ 2,283
Expected return on assets	(2,006)	(2,511)	(3,078)
Amortization of actuarial loss	1,852	1,865	2,427
Annuity contact premium adjustment	-	-	-
Settlement loss	2,043	3,087	5,192
Net pension cost	$ 3,753	$ 4,500	$ 6,824

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 30, 2017** 12/31/2016	**December 31, 2016** 1/2/2016	**January 2, 2016** 1/3/2015
Weighted average assumptions:			
Discount rate	3.55%	3.66%	3.37%
Expected return on assets	5.25%	5.50%	5.50%
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 12/30/2017	$ 3,840	$ (3,365)
2017 Pension income / (expense)	61	(60)
2017 Settlement income / (expense)	226	(223)
Total 2017 Pension income / (expense)	287	(283)
Sensitivity to expected return on assets:		
2017 Expected Return on Assets	$ (382)	$ 383

Plan Assets

In 2017 the Company adopted ASU No. 2015-04 Compensation – Retirement Benefits (Topic 715). This standard permits 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. There is no impact since the financial markets were closed on December 30, 2017 and December 31, 2017.

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, 2017	December 31, 2016
Domestic equities - Large cap	12.0%	12.4%	12.4%
Domestic equities - Mid cap	4.0%	4.2%	3.8%
Domestic equities - Small cap	2.0%	2.1%	2.0%
Foreign equities - International, Large cap	11.0%	11.4%	9.5%
Foreign equities - Emerging Markets, Large cap	6.0%	6.3%	6.1%
Real estate investment trusts	3.0%	3.0%	3.1%
Alternative investments - Commodities	3.0%	3.1%	3.2%
Fixed income - Investment grade	59.0%	52.8%	58.3%
Cash Equivalents	0.0%	4.7%	1.6%
Total	100.0%	100.0%	100.0%

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 30, 2017 and December 31, 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.

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, 2017 and December 31, 2016.

($ in thousands)

Investments at Fair Value as of December 31, 2017	Level 1	Level 2	Level 3	Total
Interest in registered investment companies:				
Domestic equities - Large cap	$ 4,771	$ -	$ -	$ 4,771
Domestic equities - Mid cap	1,612	-	-	1,612
Domestic equities - Small cap	809	-	-	809
Foreign equities - International, Large cap	4,377	-	-	4,377
Foreign equities - Emerging Markets, Large cap	2,431	-	-	2,431
Real estate investment trusts	1,147	-	-	1,147
Alternative investments - Commodities	1,171	-	-	1,171
Common Stock - Domestic - Small cap	2	-	-	2
Fixed income securities, Investment Grade:				
Corporate bonds	-	14,003	-	14,003
Government bonds and agency debt	5,137	-	-	5,137
Municipal bonds	-	1,107	-	1,107
Collective Trusts - Cash Equivalents	-	1,784	-	1,784
Total assets at fair value	$ 21,457	$ 16,894	$ -	$ 38,351

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

Contributions

True Value expects to contribute $2,566 to its qualified pension plan and $490 to its SRP plan in 2018.

($ in thousands)

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

	Benefits
2018	$ 6,753
2019	5,274
2020	4,807
2021	4,504
2022	4,106
2023-2027	18,063

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

	2017	**2016**
Measurement Date	12/30/2017	12/31/2016
Weighted average assumptions:		
Discount rate	3.27%	3.55%
Lump sum rate – current year	2.80%	2.86%
Lump sum rate – long term	4.50%	4.50%

The discount rate of 3.27% was primarily based on spot-yields as of December 30, 2017 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 2.80% for 2018 distributions, 3.00% for 2019 distributions, 3.50% for 2020 distributions, and 4.00% for 2021 distributions, 4.50% for 2022 and thereafter, versus 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 in the calculation of the PBO as of December 30, 2017 and December 31, 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 2017 the rate was 5.25%, which was changed from 5.50% from the prior year. This rate is net of both investment-related expenses and other administrative expenses charged to the pension trust.

The average expected future service under the defined benefit plans as of December 30, 2017 was approximately 8.00 years for the qualified plan and 2.98 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 2017, 2016 and 2015. 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 2017, 2016 and 2015. The total participants’ deferred compensation including True Value’s contributions to the participants’ balances may not exceed $54 for 2017, and $53 for both 2016 and 2015. True Value’s 401k Plan included a 100% guaranteed match up to a total of 5% of the participant’s annual compensation. Also, based on True Value achieving certain financial goals and at the discretion of the Board of Directors, an additional 1% of most participants’ annual compensation could be earned. True Value recognized costs of $6,334, $5,915, and $6,058 for 2017, 2016 and 2015, respectively, for the 401k Plan. For 2017, 2016 and 2015, no discretionary components were earned.

14. Subsequent Events

True Value has determined as of March 2, 2018, 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 2, 2018