

OTC Pink Basic Disclosure

1) Name of the issuer and its predecessors (if any)

In answering this item, please also provide any names used by predecessor entities in the past five years and the dates of the name changes.

Calloway's Nursery, Inc.

2) Address of the issuer's principal executive offices

Company Headquarters:

Address 1: 4200 Airport Freeway

Address 2: Suite 200

Address 3: Fort Worth, TX 76117-6200

Phone: 817.222.1122

Email: Info@Calloways.com

Website(s): www.Calloways.com

IR Contact: Same as above

3) Security Information

Trading Symbol: CLWY

Exact title and class of securities outstanding: Common Stock

CUSIP: 131255

Par or Stated Value: \$.01

Total shares authorized: 30,000,000 as of: 03/24/15

Total shares outstanding: 7,345,960 as of: 03/24/15

Additional class of securities (if necessary): None

Transfer Agent:

Name: Computershare

Address 1: PO Box 30170

Address 2: College Station, TX 77842-3170

Phone: 800.577.4676

Is the Transfer Agent registered under the Exchange Act?* Yes: ☒ No: ☐

*To be included in the OTC Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

List any restrictions on the transfer of security: None

Describe any trading suspension orders issued by the SEC in the past 12 months: None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

On February 19, 2016, the Company and 3K Limited Partnership completed a joint tender offer to purchase up to 4,000,000 shares of Calloway's common stock at a purchase price of \$2.52 per share. Based on a final tabulation by Computershare Trust Company, N.A., the depository for the Offer, 1,032,413 shares of Calloway's common stock were validly tendered and not withdrawn prior to the expiration of the Offer. In accordance with the terms of the Offer, 1,032,413 shares of Calloway's common stock were accepted for purchase, all of which were purchased by Calloway's, for an aggregate purchase price of \$2,601,680.76.

In addition, 3K purchased substantially all of the shares of Calloway's common stock held by James C. Estill, the former Chief Executive Officer, former Chairman of the Board of Directors and co-founder of Calloway's, and John T. Cosby, a former executive officer, former member of the Board of Directors and co-founder of Calloway's, at a purchase price of \$2.52 per share. The Offer and the purchase of these shares by 3K are collectively referred to as the "Recapitalization."

As a result of the Recapitalization, 3K and its affiliates became the largest holder of Calloway's common stock, holding approximately 56.7% of the total number of outstanding shares. In addition, pursuant to the terms of the Recapitalization Agreement, Mr. Estill resigned as the Chief Executive Officer and Chairman of the Board of Directors of Calloway's at the closing of the Recapitalization, and Marce Ward, the President and Chief Operating Officer of Calloway's prior to the Recapitalization, was appointed as President and Chief Executive Officer. Furthermore, pursuant to the Recapitalization Agreement, five members of the Calloway's Board of Directors, consisting of Mr. Estill, Dan Feehan, Alan Howe, Daniel Reynolds and David Straus, resigned from the board. The post-Recapitalization Board of Directors consists of continuing directors Peter Kamin, David Alexander and Mr. Ward, as well as two designees appointed by 3K, David Schneider and Terry Shaver.

4) Issuance History

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period. The list shall include all offerings of equity securities, including debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services, describing (1) the securities, (2) the persons or entities to whom such securities were issued and (3) the services provided by such persons or entities. The list shall indicate:

- A. The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.); None
- B. Any jurisdictions where the offering was registered or qualified; N/A
- C. The number of shares offered; N/A
- D. The number of shares sold; N/A
- E. The price at which the shares were offered, and the amount actually paid to the issuer; N/A
- F. The trading status of the shares; N/A and
- G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act. N/A

There were no shares offered or sold during the past two fiscal years and the period through the preparation of this disclosure report. On February 19, 2016 the total number of common shares outstanding was reduced by 1,032,413 pursuant to the Recapitalization described under Item 3.

5) Financial Statements

Provide the financial statements described below for the most recent fiscal year end or quarter end to maintain qualification for the OTC Pink Current Information tier. For the initial disclosure statement (qualifying for Current Information for the first time) please provide reports for the two previous fiscal years and any interim periods.

- A. Balance sheet;
- B. Statement of income;
- C. Statement of cash flows;
- D. Financial notes; and
- E. Audit letter, if audited

The financial statements requested pursuant to this item shall be prepared in accordance with US GAAP by persons with sufficient financial skills.

You may either (i) attach/append the financial statements to this disclosure statement or (ii) post such financial statements through the OTC Disclosure & News Service as a separate report using the appropriate report name for the applicable period end. ("Annual Report," "Quarterly Report" or "Interim Report").

If you choose to publish the financial reports separately as described in part (ii) above, you must state in the accompanying disclosure statement that such financial statements are incorporated by reference. You may reference the document(s) containing the required financial statements by indicating the document name, period end date, and the date that it was posted to otcq.com in the field below.

Information contained in a Financial Report is considered current until the due date for the subsequent Financial Report. To remain in the OTC Pink Current Information tier, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of its fiscal quarter-end date.

Financial statements as of and for the years ended December 31, 2015 and 2014 are provided as an attachment to this Disclosure Statement.

The issuer intends to reduce the level of disclosure beginning with March 31, 2016 fiscal quarter ending date. Basic disclosure reports are intended to be filed in a more abbreviated manner.

6) Describe the Issuer's Business, Products and Services

Describe the issuer's business so a potential investor can clearly understand the company. In answering this item, please include the following:

A. Description of the issuer's business operations;

Founded in 1986, Calloway's Nursery, Inc. is a multi-store garden center chain serving the Dallas - Fort Worth and Houston markets as Calloway's Nursery in D/FW and Cornelius Nursery in Houston. The company strives to make gardening fun, easy and successful for customers by offering expert advice from Texas Certified Nursery Professionals; store environments that are educational and easy to shop; gardening clinics that serve both novice and expert gardeners; displays and instructions to aid gardeners with design and color development in their yards; and a product selection of the best plant varieties available.

B. Date and State (or Jurisdiction) of Incorporation: 03/86 TX

C. Issuer's primary and secondary SIC Codes; 5261-04

D. Issuer's fiscal year end date; 12/31

E. Principal products or services, and their markets; Living plants and garden-related merchandise; retail; Texas.

7) Describe the Issuer's Facilities

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer. In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

The following table provides information on the company's real properties. For additional information, see Notes to the 2015 Consolidated Financial Statements as referenced.

Type of facility	Location	Owned/Leased	Reference
Retail store	2100 N. Plano Rd., Richardson, TX 75082	Owned	Notes 4, 6
Retail store	4220 N. Galloway, Mesquite, TX 75150	Owned	Note 4
Retail store	1621 Custer Pkwy., Plano, TX 75075	Owned	Notes 4, 6
Retail store	4940 S. Cooper, Arlington, TX 76017	Owned	Notes 4, 6
Retail store	7410 N. Greenville Ave., Dallas, TX 75231	Leased	Note 12
Retail store	1000 Preston Rd., Plano, TX 75093	Leased	Note 12
Retail store	423 East FM 3040, Lewisville, TX 75067	Leased	Note 12
Retail store	2651 South Hulen, Fort Worth, TX 76109	Owned	Notes 4, 6
Retail store	760 Grapevine Hwy., Hurst, TX 76054	Leased	Note 12
Retail store	1601 Dallas Drive, Denton, TX 76205	Leased	Note 12
Retail store	4050 W. Eldorado Pkwy., McKinney, TX 75070	Owned	Notes 4, 6
Retail store	1424 N. Center St., Arlington, TX 76011	Leased	Note 12
Retail store	2901 Long Prairie, Flower Mound, TX 75022	Owned	Note 4
Retail store	291 E. Southlake Blvd, Southlake, TX 76092	Owned	Notes 4, 6
Retail store	2460 State Hwy 121, Plano, TX 75025	Leased	Note 12
Retail store	1801 FM 423, Little Elm, TX 75068	Leased	Note 12
Retail store	2233 South Voss Road, Houston, TX 77057	Owned	Notes 4, 6
Office	4200 Airport Freeway., Fort Worth, TX 76117	Leased	Note 12
Retail store	3936 North Tarrant Parkway, Fort Worth, TX 76177	Owned	Note 4
Retail store	311 East Debbie Lane, Mansfield, TX 76063	Owned	Note 4

8) Officers, Directors, and Control Persons

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant shareholders.

- A. Names of Officers, Directors, and Control Persons. In responding to this item, please provide the names of each of the issuer's executive officers, directors, general partners and control persons (control persons are beneficial owners of more than five percent (5%) of any class of the issuer's equity securities), as of the date of this information statement.

David Alexander, Peter Kamin, David Schneider, Terry Shaver, Marce Ward, John Peters, Daniel Reynolds, David Weger

- B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses); None
2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities; None
3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; None
4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities. None

- C. Beneficial Shareholders. Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

Peter Kamin, 40 Briarcliff Road, Longmeadow, MA 01106 – 4,164,737 shares

9) Third Party Providers

Please provide the name, address, telephone number, and email address of each of the following outside providers that advise your company on matters relating to operations, business development and disclosure:

Legal Counsel

Name: Derek D. Bork

Firm: Thompson Hine LLP

Address 1: 3900 Key Center, 127 Public Square

Address 2: Cleveland, OH 44114-1291

Phone: 216-566-5500

Email: Derek.Bork@ThompsonHine.com

Accountant or Auditor

Name: Griff Babb

Firm: Whitley Penn LLP

Address 1: 1400 West 7th Street, Suite 400

Address 2: Fort Worth, TX 76102

Phone: 817.258.9100

Email: Griff.Babb@WhitleyPenn.com

Investor Relations Consultant

Name: None

Other Advisor: Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement.

Name: None

10) Issuer Certification

I, Daniel G. Reynolds certify that:

1. I have reviewed this annual disclosure statement of Calloway's Nursery, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

CALLOWAY'S NURSERY, INC.

A handwritten signature in black ink, appearing to read 'Dan Reynolds', with a stylized flourish at the end.

Vice President and Chief Financial Officer

CALLOWAY'S NURSERY, INC.

CONSOLIDATED FINANCIAL STATEMENTS

**Years Ended December 31, 2015 and 2014
with Report of Independent Auditors**

CALLOWAY'S NURSERY, INC.
CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of
Calloway's Nursery, Inc.

We have audited the accompanying consolidated financial statements of Calloway's Nursery, Inc., a Texas corporation, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Calloway's Nursery, Inc. as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in conformity with GAAP.

Whitley Penn LLP

Fort Worth, Texas
March 8, 2016

Calloway's Nursery, Inc.
Consolidated Balance Sheets
(amounts in thousands, except share amounts)

Assets		December 31,	
		2015	2014
Cash and cash equivalents		\$ 6,481	\$ 6,121
Accounts receivable		60	48
Inventories		2,486	2,069
Prepays		72	74
Property held for sale		--	1,240
Total current assets		9,099	9,552
Property and equipment, net		22,145	13,337
Restricted cash		--	9,143
Other assets		41	101
Total assets		<u>\$31,285</u>	<u>\$32,133</u>
Liabilities and Shareholders' Equity			
Accounts payable and accrued expenses		\$ 5,829	\$ 5,322
Current portion of long-term debt		935	942
Total current liabilities		6,764	6,264
Long-term debt, net of current portion		4,209	6,757
Deferred rent payable		80	74
Deferred income taxes		2,167	2,600
Total liabilities		<u>13,220</u>	<u>15,695</u>
Commitments and contingencies			
Shareholders' equity:			
Common stock (\$.01 par value; 30,000,000 shares authorized; 8,640,260 shares issued)		86	86
Additional paid-in capital		11,082	11,082
Retained earnings		8,305	6,678
		19,473	17,846
Less: treasury stock, at cost (261,888 shares)		(1,408)	(1,408)
Total shareholders' equity		<u>18,065</u>	<u>16,438</u>
Total liabilities and shareholders' equity		<u>\$31,285</u>	<u>\$32,133</u>

The accompanying notes are an integral part of these consolidated financial statements.

Calloway's Nursery, Inc.
Consolidated Statements of Income
(amounts in thousands, except per share amounts)

	Year Ended December 31,	
	2015	2014
Net revenue	\$49,960	\$53,515
Cost of goods sold	25,640	27,055
Gross profit	24,320	26,460
Operating expenses	15,924	16,378
Advertising expenses	1,401	1,549
Occupancy expenses	3,205	3,599
Depreciation and amortization	549	518
Net interest expense	388	566
Recapitalization expenses	131	--
Total expenses	21,598	22,610
(Gain) on disposals and impairments of properties	(66)	(8,874)
Income before provision for income taxes	2,788	12,724
Income tax expense	1,161	4,384
Net income	<u>\$ 1,627</u>	<u>\$ 8,340</u>
Weighted average number of common shares outstanding - basic and diluted	<u>8,378</u>	<u>8,378</u>
Net income per common share - basic and diluted	<u>\$0.19</u>	<u>\$1.00</u>

The accompanying notes are an integral part of these consolidated financial statements.

Calloway's Nursery, Inc.
Consolidated Statements of Shareholders' Equity
(amounts in thousands)

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Treasury</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Earnings</u>	<u>Stock</u>	<u>Total</u>
			<u>Capital</u>			
Balance January 1, 2014	8,640	\$86	\$11,082	(\$1,662)	(\$1,408)	\$ 8,098
Net income	--	--	--	8,340	--	8,340
Balance December 31, 2014	8,640	86	11,082	6,678	(1,408)	16,438
Net income	--	--	--	1,627	--	1,627
Balance December 31, 2015	<u>8,640</u>	<u>\$86</u>	<u>\$11,082</u>	<u>\$8,305</u>	<u>(\$1,408)</u>	<u>\$18,065</u>

The accompanying notes are an integral part of these consolidated financial statements.

Calloway's Nursery, Inc.
Consolidated Statements of Cash Flows
(amounts in thousands)

	Year Ended December 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$1,627	\$8,340
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	549	518
Amortization of deferred borrowing costs	17	32
Deferred income taxes	(433)	2,825
Gain on disposal and impairment of properties	(66)	(8,874)
Change in operating assets and liabilities:		
Inventories	(417)	334
Accounts payable and accrued expenses	507	153
Other operating assets and liabilities	56	(26)
Net cash flows provided by operating activities	<u>1,840</u>	<u>3,302</u>
Cash flows from investing activities:		
Additions to property and equipment	(9,357)	(117)
Proceeds from sale of property	18	9,143
(Increase) decrease in restricted cash from sale of property	<u>9,143</u>	<u>(9,143)</u>
Net cash flows used for investing activities	<u>(196)</u>	<u>(117)</u>
Cash flows from financing activities:		
Repayments of debt	<u>(1,284)</u>	<u>(951)</u>
Net cash flows used for financing activities	<u>(1,284)</u>	<u>(951)</u>
Net increase in cash and cash equivalents	360	2,234
Cash and cash equivalents at beginning of year	<u>6,121</u>	<u>3,887</u>
Cash and cash equivalents at end of year	<u>\$6,481</u>	<u>\$6,121</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$371	\$534
Income taxes	\$1,493	\$1,553
Supplemental disclosure of noncash activities:		
Transfer of property and equipment to property held for sale	\$--	\$762
Repayment of long-term debt with proceeds from property sales	\$1,288	\$1,560

The accompanying notes are an integral part of these consolidated financial statements.

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Note 1 - Organization and nature of the Company

Calloway's Nursery, Inc. (the "Company") operates 17 retail garden centers in the two largest metropolitan areas in Texas: Dallas -Fort Worth (as *Calloway's Nursery*) and Houston (as *Cornelius Nursery*).

History

- 1986 The Company was founded.
- 1987 The Company opened its first four retail stores in the Dallas -Fort Worth market.
- 1997 The Company entered the growing segment of the nursery industry when it acquired the Miller Plant Farms growing operation ("Miller").
- 1999 The Company acquired certain assets of Cornelius Nurseries, Inc. ("Cornelius") and two affiliated entities ("the Cornelius Acquisition"). The Cornelius Acquisition added three retail stores in the Houston market, the Turkey Creek Farms growing operation near Houston ("Turkey") and two wholesale distribution centers (one in Houston and one near Austin).
- 2002 The Company sold the two wholesale distribution centers it had acquired in the Cornelius Acquisition; it adopted a formal plan to dispose of Turkey, discontinuing the plant material that Turkey had produced; and it entered the San Antonio market by leasing seven former nursery locations (this new market entry did not constitute a business combination).
- 2003 The Company adopted a formal plan to dispose of Miller, discontinuing the plant material that Miller had produced; it also completed the sale of both Turkey and Miller.
- 2008 The Company closed its San Antonio market retail stores at the end of their lease terms.

The Company operates within one segment: Standard Industrial Code 5261 - Retail Nurseries, Lawn and Garden Supply Stores.

Wholly-owned subsidiaries

As of December 31, 2015 the Company has one wholly-owned subsidiary:

Cornelius is a company that owns the Cornelius Nursery retail store property in the Houston market and the related indebtedness.

Calloway's Nursery Frisco, Inc. was a company that owned property held for sale in Frisco, Texas, a suburb in the Dallas - Fort Worth market, and the related indebtedness. This subsidiary was dissolved in 2015 after the Company sold the property and paid off the related indebtedness.

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements (continued)
December 31, 2015 and 2014

Note 1 - Organization and nature of the Company (continued)

Business

The Company derives substantially all of its revenues from sales of living plants and related products to consumers. No single product or customer accounts for a material portion of its revenues.

Economic, weather and other circumstances that may exist from time-to-time in the Company's market areas can have a significant impact on the Company's results of operations.

Note 2 - Summary of significant accounting policies

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements.

Basis of accounting - The accounts are maintained, and the consolidated financial statements have been prepared, using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Cash equivalents - For purposes of the consolidated financial statements the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts receivable – Substantially all of the Company's accounts receivable are the result of credit card transactions. The Company's retail stores accept MasterCard, VISA, American Express and Discover. No allowance for doubtful accounts is considered necessary since substantially all amounts are collected within two business days.

Inventories - All of the Company's inventories consist of finished goods.

The Company early adopted Accounting Standards Update ("ASU") 2015-11, *Simplifying the Measurement of Inventory* ("ASU 2015-11") in the fourth quarter of 2015. ASU 2015-11 amends Accounting Standards Codification ("ASC") Topic 330, *Inventory*, providing that entities should measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonable predictable costs of completion, disposal and transportation. Adoption of ASU 2015-11 did not have an impact on the Company's valuation of inventory.

Property and equipment - Property and equipment are capitalized at cost: including interest capitalized in connection with major long-term construction projects, and depreciated using the straight-line method over the estimated useful lives of the various classes of assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the asset life or the lease term. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of property and equipment sold or otherwise retired, and the related accumulated depreciation and amortization are removed from the accounts and any resultant gain or loss is included in the operating results of the respective period.

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements (continued)
December 31, 2015 and 2014

Note 2 - Summary of significant accounting policies (continued)

The useful lives for purposes of calculating depreciation and amortization are as follows:

Land improvements	15 years
Buildings	33 years
Leasehold improvements	Shorter of asset life or lease term
Furniture and fixtures	5 years
Equipment	5 years
Vehicles	3 years

The Company evaluates the propriety of the carrying amounts of its property and equipment as well as the depreciation and amortization periods annually and when events and circumstances indicate that impairment may have occurred. Recoverability of property and equipment to be held and used is measured by the comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated discounted future cash flows.

As discussed in Note 14, the Company recorded an impairment charge of \$1,030,000 for the year ended December 31, 2014, and reclassified certain property to Property Held for Sale. Those properties were sold in 2015. Management believes that no other impairments have occurred and that no further reduction of carrying amounts is warranted.

Debt issuance costs – The Company capitalizes incremental costs that are directly attributable to issuing debt and amortizes such costs as a component of interest expense over the term of the related debt.

The Company early adopted ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03") in the fourth quarter of 2015. ASU 2015-03 amends ASC Subtopic 835-30, *Interest – Imputation of Interest*, providing that entities should classify debt issuance costs as a direct reduction from the carrying amount of the related debt liability, consistent with debt discounts. The Company has applied ASU 2015-03 retrospectively; accordingly, amounts of unamortized debt issuance costs for prior years have been reclassified as a direct reduction of long-term debt in the consolidated balance sheet.

Revenue recognition - The Company recognizes revenue when the customer takes possession of the merchandise.

Gift card revenue recognition - At the time gift cards are sold, no revenue is recognized; rather, a liability is established for the face amount of the card. The liability remains recorded until the earlier of redemption, escheatment or expiration. The liability is relieved and revenue is recognized when gift cards are redeemed for merchandise. Unredeemed gift card liability is included in accounts payable and accrued expenses (see Note 5).

Advertising expenses - The majority of the Company's advertising consists of printed newspaper advertisements, radio announcements, direct mail and electronic mail. The Company is also active with its Web site and social media. The Company expenses all advertising costs as they are incurred.

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements (continued)
December 31, 2015 and 2014

Note 2 - Summary of significant accounting policies (continued)

Income taxes - Income taxes are accounted for under the "liability method". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryovers. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

US GAAP prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company classifies any interest recognized on an underpayment of income taxes as interest expense and classifies any statutory penalties recognized on a tax position taken as operating expense. Management of the Company has not taken a tax position that, if challenged, would be expected to have a material effect on the consolidated financial statements or the effective tax rate for the years ended December 31, 2015 and 2014.

The Company files income tax returns in the United States federal jurisdiction and the state of Texas. The tax years which remain open to potential examination by the tax authorities as of December 31, 2015 include each of the years from 2012 through 2014. No tax returns are currently under examination by any tax authorities and the Company has not incurred any penalties or interest related to such tax returns.

The Company early adopted ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17") in the fourth quarter of 2015. ASU 2015-17 amends ASC Topic 740, *Income Taxes*, providing that entities should classify deferred tax liabilities and assets as noncurrent in a classified statement of financial position. The Company has applied ASU 2015-17 retrospectively; accordingly, amounts of deferred taxes and liabilities for prior years have been reclassified to a single noncurrent amount in the consolidated balance sheet.

Net income per common share - Basic net income per common share is computed by dividing income attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings or loss of the Company. There were no dilutive securities at December 31, 2015 and 2014.

Stock-based compensation - The Company sponsors a stock-based compensation plan for its employees and directors. There were no stock options issued in the years ended December 31, 2015 and 2014, and all outstanding stock options had expired as of January 1, 2014 (see Notes 9 and 10).

Use of estimates - The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements (continued)
December 31, 2015 and 2014

Note 2 - Summary of significant accounting policies (continued)

As described in Note 7, the Company did not record a valuation allowance for its deferred tax assets at December 31, 2015 and 2014. Such an estimate could change in the future based on the occurrence of one or more future events.

As described in Note 13, the Company reinvested proceeds from the 2014 sale of property in "like-kind" exchanges as provided in Internal Revenue Code Section 1031 ("Section 1031"). Accordingly, a deferred tax liability has been recorded for this transaction.

As described in Note 14, the Company recorded impairment charges in 2014 to reduce the carrying amounts of two parcels of undeveloped land (that had been Held for Sale) to their estimated net realizable values. The properties were sold in 2015 (see Note 14).

Fair value of financial instruments - The carrying values of the Company's financial instruments, other than long-term debt, approximate their respective fair values due to the short maturities of such instruments. The Company's borrowings, if recalculated based on current interest rates, would not differ significantly from the amounts recorded at December 31, 2015 and 2014.

Principles of consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Sales taxes - The Company includes sales taxes as a line item at the point of invoicing customers for taxable transactions. These taxes are recorded net (excluded from revenue and costs) to a payable account. At the point of remitting the taxes to the proper authority, the payable account is relieved.

Note 3 - Cash and cash equivalents

Cash and cash equivalents at December 31 consist of the following (amounts in thousands):

	<u>2015</u>	<u>2014</u>
Demand deposit accounts	\$6,460	\$6,099
Petty cash	21	22
	<u>\$6,481</u>	<u>\$6,121</u>

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements (continued)
December 31, 2015 and 2014

Note 4 - Property and equipment, net

Property and equipment at December 31 consist of the following (amounts in thousands):

	2015	2014
Land	\$ 9,668	\$ 6,991
Land improvements	1,307	1,208
Buildings	10,220	7,434
Leasehold improvements	1,952	2,011
Furniture and fixtures	712	698
Equipment	1,842	1,802
Vehicles	823	774
Construction in process	3,636	27
	<u>30,160</u>	<u>20,945</u>
Less: accumulated depreciation and amortization	<u>(8,015)</u>	<u>(7,608)</u>
	<u><u>\$22,145</u></u>	<u><u>\$13,337</u></u>

Note 5 - Accounts payable and accrued expenses

At December 31 the Company's accounts payable and accrued expenses consist of the following (amounts in thousands):

	2015	2014
Accounts payable	\$3,239	\$2,412
Payroll	1,110	1,416
Gift cards	590	535
Property taxes	495	634
Income taxes	180	79
Sales taxes	215	246
	<u><u>\$5,829</u></u>	<u><u>\$5,322</u></u>

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements (continued)
December 31, 2015 and 2014

Note 6 - Long-term debt

Long-term debt consists of the following (amounts in thousands):

<u>Description</u>		<u>Matures (Year)</u>		<u>Interest rate</u>	<u>Balance as of December 31, 2015</u>	<u>2014</u>
<i>Revolving credit</i>						
Line of credit	[a]	2018	2.18%	Variable	\$ --	\$ --
<i>Real estate term loans [b]</i>						
Property held for sale (sold in 2015)						
	[c]	2017	7.25%	Variable	--	1,221
Store location	[d]	2017	3.18%	Variable	1,531	2,236
Store location		2019	6.00%	Fixed	323	393
Store location		2019	6.00%	Fixed	353	430
Store location		2019	6.00%	Fixed	431	524
Store location	[e]	2020	6.00%	Fixed	509	607
Store location		2020	7.20%	Fixed	1,201	1,401
Store location		2022	7.46%	Fixed	853	941
<i>Other long-term debt</i>						
Other term loans						
	[f]	Various	0.00%	Fixed	18	39
					<u>5,219</u>	<u>7,792</u>
Less: amounts due within one year					(935)	(942)
Less: unamortized debt issuance costs					(75)	(93)
					<u>\$4,209</u>	<u>\$6,757</u>

[a] Provides up to \$2,000,000 to support seasonal working capital needs. There were no borrowings or repayments in 2015 or 2014. Facility contains certain financial covenants, all of which the Company was in compliance with as of December 31, 2015 and 2014.

Variable interest rate is one-month LIBOR (0.43% and 0.17% as of December 31, 2015 and 2014, respectively) + 1.75%, or prime (3.50% and 3.25% at December 31, 2015 and 2014, respectively), at the Company's option.

This credit facility was established in October 2012 with a three-year term expiring in 2015. The facility was amended in 2015 to extend the expiration date to October 2018.

[b] All real estate term loans are collateralized by Company-owned real property.

[c] Variable interest rate was greater of prime (3.25% as of December 31, 2014) + 1.00%, or 7.25%. The loan was paid off when the property was sold in 2015.

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements (continued)
December 31, 2015 and 2014

Note 6 – Long-term debt (continued)

- [d] Variable interest rate is one-month LIBOR (0.43% and 0.17% at December 31, 2015 and 2014, respectively) + 2.75%.
- [e] Refinanced in January 2016 (see Note 15).
- [f] Various automobile loans collateralized by the vehicles.

Maturities of long-term debt are as follows (amounts in thousands):

Year ending December 31,	
2016	\$ 935
2017	2,001
2018	763
2019	806
2020	416
Thereafter	298
	<u>\$5,219</u>

The Company borrowed \$4,900,000 from a financial institution in January 2016 to help provide sufficient funds for its Recapitalization and Tender Offer that was subsequently completed in February 2016 (see Note 15).

Note 7 – Income taxes

Components of income tax expense for the years ended December 31 consist of the following (amounts in thousands):

	<u>2015</u>	<u>2014</u>
Current expense:		
Federal	\$1,522	\$1,497
State	72	62
	<u>1,594</u>	<u>1,559</u>
Deferred expense:		
Federal	(590)	2,820
State	157	5
	<u>(433)</u>	<u>2,825</u>
Total provision for income taxes	<u>\$1,161</u>	<u>\$4,384</u>

The differences between the Company's effective tax rates and the federal statutory tax rate of 34%, as applied to income before income taxes, result from the effects of state income taxes, meals and entertainment, tax credits and other miscellaneous items.

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements (continued)
December 31, 2015 and 2014

Note 7 – Income taxes (continued)

Significant components of the Company's net deferred tax liabilities as of December 31 include (amounts in thousands):

	<u>2015</u>	<u>2014</u>
Deferred tax (assets) liabilities:		
Capitalized inventory costs	(\$ 54)	(\$ 45)
Estimated payment carryovers	--	(172)
Deferred rent	(27)	(25)
State tax carryover credit	(92)	(196)
Basis difference on assets	2,201	2,874
Accumulated depreciation	245	261
Deferred revenue on gift cards	(106)	(97)
Net deferred tax liabilities	<u>\$2,167</u>	<u>\$2,600</u>

Management believes it is more likely than not that the Company will realize current and long-term deferred tax assets through the reduction of future taxable income. Accordingly, no valuation allowance is considered necessary as of December 31, 2015 or 2014. To assess the need for a valuation allowance management considered future reversals of existing taxable temporary differences and future taxable income exclusive of such reversing differences. Positive evidence includes the Company's history of profitable operations for all years from 2004 through 2015 (except for 2009) and the long carryover period for the state tax credit carryover (expiring in 2026).

Note 8 - Common stock purchase rights

Effective July 1991, the Company adopted a shareholder rights plan (the "Rights Plan") that entitles each registered shareholder to one common share purchase right ("Right") per common share held. The Rights attach to all certificates representing outstanding shares of common stock; no separate Rights certificates have been distributed. The terms of the Rights Plan provide that in the event of an unapproved tender to acquire 20 percent or more of the Company's common stock, the Right holders, except as noted below; can purchase common stock at 50% of the then current market price. The Rights Plan also provides that all Rights held by parties to the unapproved tender shall be null and void; thus, such party cannot participate in the discounted purchase of common stock. The Rights are redeemable, at the Company's option, at any time at \$.01 per Right.

The Rights Plan was eliminated upon closing of the Recapitalization and Joint Tender Offer completed in February 2016 (see Note 15).

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements (continued)
December 31, 2015 and 2014

Note 9 - Stock option plans and stock-based compensation

The Company's stock option plans provide for the awarding of stock options to employees. These plans are administered by the Compensation Committee of the Board of Directors, which consists entirely of independent directors. All options are exercisable according to predetermined vesting schedules (all options vest within three years of the date of the grant) and remain in effect for ten years from the date of the grant.

As of December 31, 2013 all outstanding stock options had expired. There were no options granted, exercised, forfeited or expired for the years ended December 31, 2015 and 2014.

Note 10 - Stock purchase plan

The Company's Board of Directors adopted a stock purchase plan (the "Stock Purchase Plan") in 2008. The purpose of the Stock Purchase Plan was to provide a method whereby Directors, officers and other key employees of the Company would have an opportunity to acquire an ownership interest in the Company and thereby provide those who will be responsible for the continued growth of the Company with a more direct concern about its welfare and a common interest with the Company's other shareholders.

The Stock Purchase Plan provided a voluntary method of acquiring shares of the \$.01 par value common stock of the Company in convenient installments by payroll deductions, supplemented by contributions from the Company.

Eligible persons ("Participants") were all members of the Company's board of directors, officers and other employees selected from time to time by the Compensation Committee of the Board of Directors.

Participants could elect to have payroll deductions of a maximum of 100% of their compensation each pay period. The Company matched up to 100% of such deductions based upon the participant's years of continuous participation in the Stock Purchase Plan.

Funds deducted from a Participant's pay and contributions made by the Company to the Stock Purchase Plan on behalf of a participant (all of which is invested for the benefit of the participant) were taxable to the participant as wages or compensation for services.

Company contributions for the years ended December 31, 2015 and 2014 were \$127,000 and \$117,000, respectively.

The Stock Purchase Plan was not subject to the Employee Retirement Income Security Act of 1974.

The Company terminated the Stock Purchase Plan in February 2016 (see Note 15).

Note 11 - Indemnity agreements

The Company has entered into indemnity agreements with its directors and executive officers which, to the extent permitted under applicable law, indemnify such persons against all expenses, judgments, fines and penalties incurred in connection with the defense or settlement of actions brought against them by reason of the fact that they are or were executive officers or directors of the Company, or assumed certain responsibilities in their official capacities.

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements (continued)
December 31, 2015 and 2014

Note 11 - Indemnity agreements (continued)

In addition, the Company has entered into indemnity agreements with two former officers a of the Company that provide additional indemnification for all liabilities and expenses in respect of certain lease obligations of the Company that have been personally guaranteed by either or both of them. If the Company fails to indemnify either of the individuals as required in the indemnity agreements, the Company will provide that individual with one or more bank letters of credit to secure payment of an aggregate of \$4,000,000 of such liability; however, the Company shall not be obligated to provide letters of credit aggregating more than \$4,000,000 to them.

Note 12 - Commitments and contingencies

The Company leases eight of its retail stores, its administrative offices and certain equipment under noncancellable operating leases. The leases expire in various years through 2034. The leases generally contain renewal options for periods ranging from 5 to 15 years and require the Company to pay all executory costs (such as property taxes, maintenance and insurance). Rental payments include minimum rentals plus contingent rentals based on revenue. The Company has not typically incurred significant amounts for contingent rentals.

Rental expense under the aforementioned leases was approximately \$2,038,000 and \$2,201,000 for the years ended December 31, 2015 and 2014, respectively.

The Company leases its point of sale information system from an unaffiliated third party. The lease requires forty-five monthly payments of approximately \$17,000 with an option to purchase the system at the end of the lease term. The lease expires in 2016.

The Company purchased two retail store properties from their lessors in 2015. Accordingly, future minimum lease payments are not included in the table below.

Future minimum lease payments under noncancellable operating leases are as follows (amounts in thousands):

Year ending December 31,	
2016	\$ 1,951
2017	1,811
2018	1,781
2019	1,688
2020	1,397
Thereafter	7,474
	<u>\$16,102</u>

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements (continued)
December 31, 2015 and 2014

Note 12 - Commitments and contingencies (continued)

Until May 2015, the Company also leased one retail store location that did not include minimum rentals. All rental payments are contingent based on revenue. The Company paid all executory costs (such as property taxes, maintenance and insurance). The lease expired in May 2015. Rental expense under the lease was approximately \$50,000 and \$71,000 for the years ended December 31, 2015 and 2014, respectively.

There are various claims and pending actions incident to the business operations of the Company from time-to-time. In the opinion of management, the Company's potential liability in all pending actions and claims, in the aggregate, will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

Note 13 - Property sale and restricted cash

In December 2014, the Company sold a retail store property. Proceeds after transaction costs and repayment of the related debt were \$9,143,000, and a \$9,904,000 gain was recognized.

Because the Company intended to reinvest such proceeds in "like-kind" exchange properties as provided in Section 1031 of the Internal Revenue Code, the proceeds were held in escrow until replacement properties or acquired or the applicable exchange period ended, whichever came first. Accordingly, the net proceeds are classified as Restricted Cash in the accompanying consolidated balance sheet as of December 31, 2014.

During the applicable exchange period, the Company reinvested \$7,115,000 in replacement properties. The balance of the exchange funds was then returned to the Company. Accordingly, there was no Restricted Cash as of December 31, 2015.

Note 14 - Property held for sale and impairment charge

In December 2014, the Company decided to sell undeveloped land adjacent to its retail store in Southlake, Texas. The property had a carrying amount of \$762,000. An impairment charge of \$387,000 was recorded to reduce the carrying amount to its estimated net realizable value of \$375,000. The property was reclassified to Property Held for Sale.

In January 2015, the Company entered into a contract to sell undeveloped land in Frisco, Texas that was already classified as Property Held for Sale. Since the expected net realizable value of \$865,000 was less than the carrying amount of \$1,508,000, the Company recorded an impairment charge of \$643,000 in December 2014.

Both of the aforementioned properties were sold in 2015. A net gain of approximately \$48,000 was recorded in 2015.

Note 15 - Subsequent events

In preparing the accompanying consolidated financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through March 8, 2016, the date the consolidated financial statements were available for issuance.

Calloway's Nursery, Inc.
Notes to Consolidated Financial Statements (continued)
December 31, 2015 and 2014

Recapitalization

On January 15, 2016 the Company entered into a Recapitalization Agreement (the "Recapitalization Agreement") with 3K Limited Partnership ("3K"), a Massachusetts limited partnership.

Pursuant to the terms of the Recapitalization Agreement:

- The Company borrowed \$4.9 million from a financial institution (the "Recapitalization Financing"), which, combined with existing funds, provided sufficient capital to support the repurchase of shares pursuant to the Offer.
- The Company and 3K commenced a joint tender offer (the "Offer") to purchase up to 4,000,000 shares of Calloway's common stock at a purchase price of \$2.52 per share. The Offer expired on February 18, 2016.
- The Company repurchased 1,032,413 shares for an aggregate purchase price of approximately \$2,602,000, which will be recorded as Treasury Stock.
- Transaction costs were approximately \$993,000. Approximately \$131,000 was recorded in the year ended December 31, 2015, and approximately \$862,000 will be recorded as expenses in the year ending December 31, 2016.
- 3K purchased substantially all of the shares of Calloway's common stock held by James Estill, the Chief Executive Officer, Chairman of the Board of Directors and co-founder of Calloway's, and John Cosby, a former executive officer, former member of the Board of Directors and co-founder of Calloway's, at the same price that is being offered to shareholders in the Offer.

The Offer and the purchase of these shares by 3K are collectively referred to as the "Recapitalization."

The purpose of the Recapitalization is primarily to (i) facilitate the sale of substantially all of the shares held by Messrs. Estill and Cosby, and, at the same time, (ii) provide an opportunity for liquidity to Calloway's shareholders on the same terms as the sale of shares by Messrs. Estill and Cosby and (iii) allow 3K to obtain a controlling block of Calloway's outstanding common stock. As a result of the Recapitalization, 3K and its affiliates became the largest holder of Calloway's common stock and can control the outcome of the election of members of Calloway's Board of Directors and other items for which shareholder approval is required or sought.

The Recapitalization Financing, which matures in January 2021, requires principal payments of approximately \$245,000 annually plus interest at one-month LIBOR (0.43% at December 31, 2015) + 2.75%. The Recapitalization Financing contains certain financial covenants with which the Company is currently in compliance.

The Recapitalization Financing is collateralized by certain real property owned by the Company. One existing loan (see Note 6[e]) was refinanced and two retail store properties acquired in 2015 using exchange funds were also pledged as collateral.

The Rights Plan was eliminated upon closing of the Recapitalization (see Note 8).

Stock Purchase Plan

In February 2016 the Company terminated the Stock Purchase Plan (see Note 10).