



PO Box 157
Maiden, NC 28650-0157
(828) 428-9911

February 12, 2018

Dear Shareholder:

We have completed the fourth quarter ending December 31, 2017.

Net income for the quarter and YTD vs. the prior year is shown below:

	<u>Q-4, 2017</u>	<u>Q-4, 2016</u>	<u>YTD, 2017</u>	<u>YTD, 2016</u>
Loss before non-recurring items	(\$127,000)	(\$53,000)	(\$412,000)	(\$296,000)
Write down of earn out from sale of Choice Therapeutics	-0-	(\$850,000)	-0-	(\$850,000)
Workers' compensation Adjustment	<u>(\$200,000)</u>	<u>\$283,000</u>	<u>(\$200,000)</u>	<u>\$283,000</u>
Net loss	(\$327,000)	(\$620,000)	(\$612,000)	(\$863,000)

Comments on the non-recurring items:

- **Workers' compensation adjustment**
 - **2017 Note:** During 2017, a large workers' compensation case that we thought was finalized became active again. We believe that this will ultimately be settled by mediation. At year end 2017, we reserved \$200,000 as the potential cost to settle this claim.
 - **2016 Note:** Prior to 2007, Carolina Mills was self-insured for workers' compensation coverage. We continued to provide on our balance sheet for potential claims. It appeared that all claims prior to 2007 had been closed, so we removed the liability and recognized \$283,000 of income in the fourth quarter of 2016.
- **Earn out write down –**
 - **2017 Note:** No effect on 2017 financial statement
 - **2016 Note:** In May 2014, Choice Therapeutics (Carolina Mills owned 33%) was sold to Alliqua Biomedical. As a part of that sale, we received cash and stock in Alliqua. We also negotiated an earn out based on the amount of Choice Therapeutics' products that Alliqua would sell over a 3-year period ending May 2017. Alliqua was not very



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successful in increasing the sales of Choice's products, so we adjusted the potential earn out to the actual amount we estimated we would receive during 2017.

One other item impacted the full year of 2017 when compared to the full year 2016:

- Rental income in 2017 was \$54,000 less vs. 2016. At the end of March 2017, we lost a tenant that generated \$6,000 per month in rental income when that tenant decided to close its operation here in Maiden, NC and consolidate it at its headquarters location in Pennsylvania. To date, we have not had success finding a tenant suitable for that space.

Our investment in Transportation Insight (TI) continues to perform to our expectations. We expect to realize a substantial gain when we exit that investment in the next few years.

Thank you for your support. I look forward to seeing those of you that can attend our annual shareholders' meeting on February 28, 2018.

A handwritten signature in black ink that reads "Bryan E. Beal". The signature is written in a cursive, flowing style.

Bryan E. Beal
President and CEO