



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

February 13, 2017

Dear Shareholder:

We have completed the fourth quarter ending December 31, 2016.

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

	<u>Q-4, 2016</u>	<u>Q-4, 2015</u>	<u>YTD, 2016</u>	<u>YTD, 2015</u>
Income/(Loss) before Non-recurring items	(\$53,000)	(\$87,000)	(\$296,000)	(\$23,000)
Write down of earn out from sale of Choice Therapeutics	(\$850,000)	-0-	(\$850,000)	-0-
Favorable workers' compensation adjustment	<u>\$283,000</u>	<u>-0-</u>	<u>\$283,000</u>	<u>-0-</u>
Net income	(\$620,000)	(\$87,000)	(\$863,000)	(\$23,000)

Comments on the non-recurring items:

- **Earn out write down** – 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. It is clear now that Alliqua has not been very successful in increasing the sales of Choice's products, so we have adjusted the potential earn out to the actual amount we think we will receive during 2017.
- **Workers' compensation adjustment** – Prior to 2007, Carolina Mills was self-insured for workers' compensation coverage. We continued to provide on our balance sheet for potential claims. It appears that all claims prior to 2007 have been closed, so we have removed the liability and recognized that as income in the fourth quarter.

Two other items impacted the full year of 2016 when compared to the full year 2015:

- Our Textile Division sales in 2016 were down 18.7% vs. 2015 for reasons I outlined in the third quarter shareholder letter. The reduced sales led to a reduction in profit of \$167,000.



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- Rental income in 2016 was \$69,000 less vs. 2015. During the first portion of 2015, we were receiving rental income from our former finished goods warehouse. The warehouse was sold in May 2015 and, as a result, the rental income ceased at that time.

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 22, 2017.

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