



October 26, 2016

To whom it may concern:

On July 1, 2016, North State Grocery, Inc. (NSG) redeemed 120,000 shares for \$250 per share from the majority shareholder, Richard E. Morgan, Jr., the founder and president of NSG. All remaining shares are held by the North State Grocery, Inc. Employee Stock Ownership Plan (ESOP). Thus, by virtue of the redemption transaction, NSG became a 100% employee-owned S-corp.

The transaction was funded by a \$25M note from the seller and a \$5M down payment borrowed from NSG's primary creditor and banking partner, National Cooperative Bank, (NCB).

Prior to the transaction, NSG made S-distributions to the majority shareholder to pay state and federal income tax on the company's earnings. NSG also made an equalizing S-distribution to the ESOP. As a result of the redemption transaction above, these S-distributions are no longer required as the earnings charged to the ESOP are tax-deferred: Participants pay the income tax (ideally in retirement) when they realize the monetary benefit of their ESOP shares. The cessation of these S-distributions more than offsets the servicing of the transaction debt.

NSG does not anticipate any material impact of the transaction on its credit capacity as the seller's note is subordinated to all NCB debt and the selling shareholder remains in his current role as president and CEO.

Thank you.

Sincerely,

  
Michel LeClerc  
Chief Financial Officer  
North State Grocery, Inc.  
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