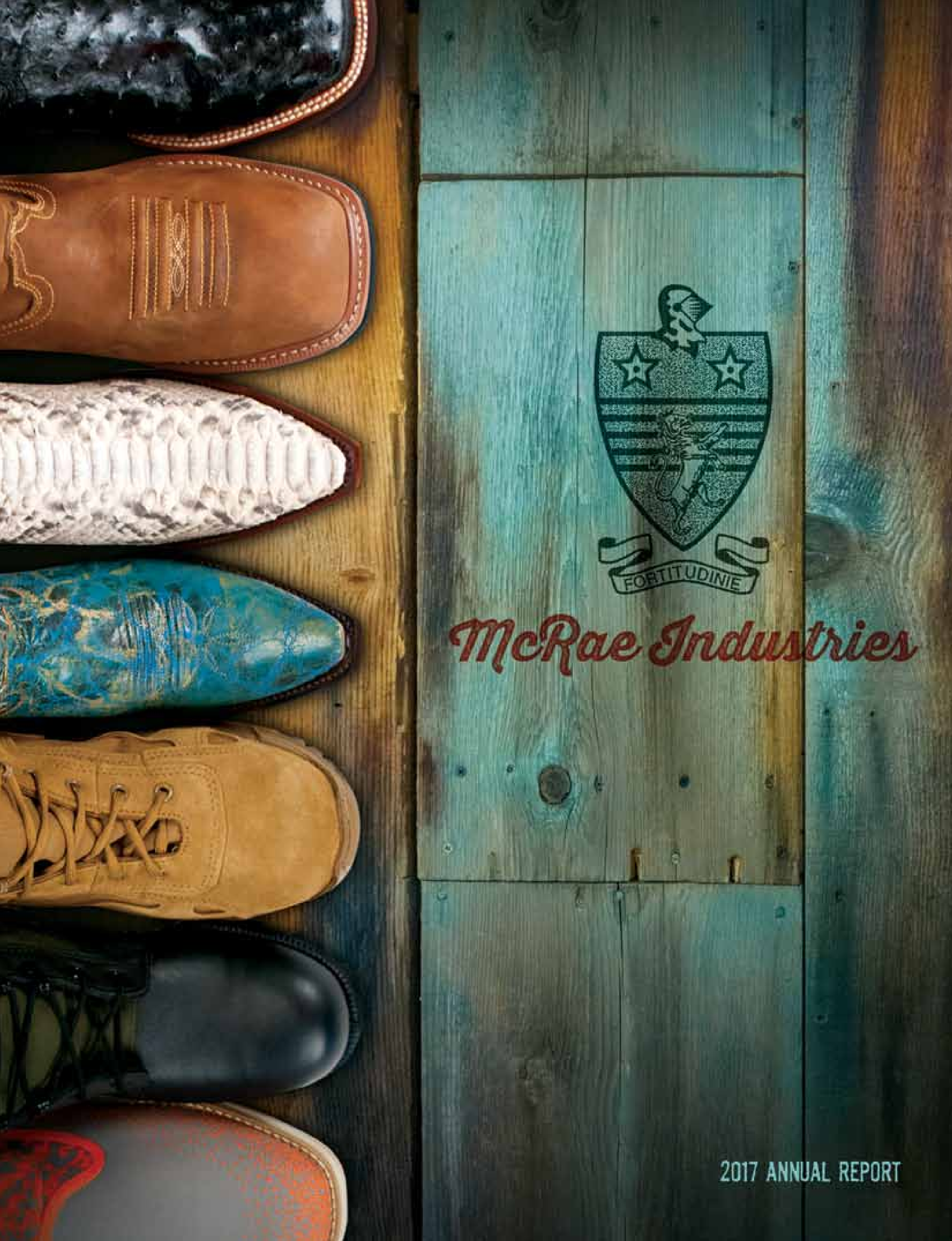

McRae Industries

2017 ANNUAL REPORT

Corporate Profile

McRae Industries, Inc. was founded in 1959 as a manufacturer and distributor of children's shoes. Today, McRae Industries is involved in manufacturing, sales and distribution of high quality, reasonably priced boot products targeted to the western/lifestyle and work boot markets. In addition, we continue to take pride in manufacturing military combat boots for the U. S. Government. The company also operates other smaller businesses.

McRae Industries, Inc. corporate headquarters is located in Mount Gilead, North Carolina.

Selected Consolidated Financial Data

The following Selected Consolidated Financial Data of the Company presented below for each of the five years in the periods indicated has been derived from our audited and consolidated financial statements.

FISCAL YEARS ENDED	7/29/17	7/30/16	8/1/15	8/2/14	8/3/13
(In thousands, except per share data)					
INCOME STATEMENT DATA:					
Net revenues	$ 104,316	$ 108,758	$ 108,673	$ 103,629	97,071
Net earnings (loss)	5,083	4,692	6,641	7,548	7,498
Net earnings per common share					
Diluted Earnings per share[(a)]:					
Class A	2.11	1.93	2.73	3.11	3.08
Class B	NA	NA	NA	NA	NA
BALANCE SHEET DATA:					
Total assets	$ 81,641	$ 80,839	$ 78,344	$ 71,186	$ 64,909
Long-term liabilities	2,263	2,288	1,513	1,536	1,399
Working capital	56,542	52,753	51,251	51,181	44,451
Shareholders' equity	74,201	70,860	67,828	62,450	56,067
Weighted average number of common shares outstanding:					
Class A	2,024,470	2,035,906	2,038,645	2,038,469	2,035,034
Class B	385,830	389,271	391,879	392,055	399,878
Weighted average number of common shares outstanding[(b)]:	2,410,300	2,425,177	2,430,524	2,430,524	2,434,912
Cash dividends per Class A common share:	$ 0.52	$ 0.52	$ 0.52	$ 0.48	0.36
Cash dividends per Class B common share:	$ 0.52	$ 0.52	$ 0.52	$ 0.48	0.27
Special Cash dividend per Class A and Class B common share	$ 0.00	$ 0.00	$ 0.00	$ 0.00	0.50

(a) This calculation uses the if-converted method which assumes all Class B Common Stock is converted into Class A Common Stock; thus, there are no holders of Class B Common Stock to participate in undistributed earnings. See Note 1 to the consolidated financial statements included in this report.

(b) Includes both Class A and Class B Common Stock.

Letter to Shareholders

Dear Valued Shareholders,

Thank you for the opportunity to report the events of McRae Industries, Inc. over the past year. It is an exciting time for our company as many challenges and opportunities are present in both our military and western/work boot operating units.

For fiscal 2017, net revenues decreased approximately 4% from $108.8 million for fiscal 2016 to $104.3 million for fiscal 2017. Net income increased from $4.7 million in fiscal 2016 to $5.1 million in fiscal 2017. The decrease in sales was the result of continued softness in our western/lifestyle products, which was somewhat offset by an increase in our United States Government military contract business. The slight increase in earnings is attributable to the increased sales and efficiencies in our United States Government military contract business and a reduction in SG&A expenses in our western/lifestyle segment. Net revenues for our work boot segment which includes Dan Post, Laredo, John Deere, and McRae Industrial work boot products along with our military boots increased by 9.5% with sales increasing from $49.7 million in fiscal 2016 to $54.2 million in 2017. The military boot sales increased by 15.2% from $39.6 million in 2016 to $45.6 million in 2017 while all other work boot brands decreased 12.8% from $10.1 million in fiscal 2016 to $8.6 million in fiscal 2017. Gross margins on our work boot brands increased slightly from 33.7% in fiscal 2016 to 34.7% in fiscal 2017. Gross margins in our military boots increased 77.9% from 6.8% in fiscal 2016 to 12.1% in fiscal 2017 because of manufacturing efficiencies, a higher volume of production, and better product mix.

Our western/lifestyle boot segment, which includes western wear, ladies fashion, and children footwear products under the Dan Post, Laredo, Dingo, El Dorado, and John Deere brand names, experienced a decrease in revenue of 17% from $58.8 million in 2016 to $48.8 million in 2017. Women's fashion and premium children's boots had the largest sales decrease. Gross margin for the western/lifestyle segment decreased from 35% in fiscal 2016 to 34.2% in fiscal 2017.

In our military business, we were able to improve efficiencies in 2017 which resulted in increased profitability for this segment of our business. We are currently completing our contract obligations with the United States Government for the hot weather Army boots and temperate weather Army boots and submitted our proposal for new solicitations for each of these boots. The contracts for each boot have a base year and four option years. These contracts will be awarded in November 2017 and January 2018. Bidding is competitive and we are hopeful of some contract awards. We also have a contract for Marine hot weather boots that will be completed in November of 2018 and we will be bidding on new solicitations for this boot and the Marine temperate weather boot in fiscal 2018. We have a small contract for Army flame resistant boots which will be completed in fiscal 2019. Our commercial military boot program continues to have growing pains as we introduce new products into the product line. We have two boot styles in the Army and Air Force Exchange Stores (AAFES) that continue to get orders on a weekly basis and hope to introduce others in the coming year. We are excited about a new e-commerce site we will be introducing in fiscal 2018 which will enable us to better connect with consumers and retailers and will help build our brand awareness.

In our western/lifestyle segment, we remain cautious about fiscal 2018 as retailers seem to be in a good position with their stock of inventory and are ordering on an as needed basis. After five years of increased sales, which was primarily driven by women entering the market, the last few years have seen decreases in this company segment and we are hoping that we will see a leveling of orders during this fiscal year. The women's percentage of this segment has traditionally been 22-24% and peaked at a high of 45% for fiscal 2015. For fiscal 2017, the women's business was 29.6% for the western/lifestyle segment. In fiscal 2018, we are introducing a new e-commerce platform that will enable us to build better brand awareness through all of the social media outlets. It is our plan to build our community of Dan Post Boot Company customers and fans and to keep them aware of our latest product offerings and company news. This should help our retail partners improve sales of our products. In addition, we will be shifting more of our advertising and marketing dollars to digital platforms to better reach today's consumer. We will also continue to introduce new and exciting products and are working to improve our time to market. As we have experienced a downturn in this business segment, we decreased expenses and managed our inventory and accounts receivables in our effort to keep profitability at an acceptable level. We are striving to increase our work boot sales by introducing new products and programs. Additionally, we have reorganized our work boot unit to enhance opportunities to reach our work boot customers and increase their awareness of our products.

Although sales have declined, we have made great strides in managing inventory and minimizing expenditures. As a result, working capital has increased from $52.8 in 2016 to $56.5 in 2017. Operating activities provided approximately $14.8 million in cash, driving our cash and cash equivalents up significantly. We believe that the Company's current cash position is more than sufficient to support our 2018 fiscal year. Management will continue to monitor the business and determine the best use of our excess capital.

On behalf of the Board of Directors, we thank you for your continued good will and support.

Sincerely,

D. Gary McRae

D. Gary McRae
President

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
McRae Industries, Inc. and Subsidiaries:

We have audited the accompanying consolidated financial statements of **McRae Industries, Inc.** (a Delaware corporation) **and Subsidiaries**, which comprise the consolidated balance sheets as of July 29, 2017 and July 30, 2016, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the three the years in the period ended July 29, 2017, 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; 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 McRae Industries, Inc. and Subsidiaries as of July 29, 2017 and July 30, 2016, and the results of their operations and their cash flows for each of the three years in the period ended July 29, 2017, in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Charlotte, North Carolina
November 1, 2017

CONSOLIDATED BALANCE SHEETS
McRae Industries, Inc. and Subsidiaries

(In thousands, except share data)	July 29, 2017	July 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$28,057	$15,673
Short term securities	505	501
Accounts and notes receivable, less allowances of $1,192 and $1,625, respectively	12,331	12,708
Inventories, net	18,273	27,944
Income tax receivable	329	1,055
Prepaid expenses and other current assets	550	433
Deferred tax assets	1,674	2,130
Total current assets	61,719	60,444
Property and equipment, net	7,391	8,147
Other assets:		
Deposits	14	14
Long term securities	3,804	3,520
Real estate held for investment	3,601	3,602
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Total other assets	12,531	12,248
Total assets	$81,641	$80,839

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

CONSOLIDATED BALANCE SHEETS

McRae Industries, Inc. and Subsidiaries

(In thousands, except share data)	July 29, 2017	July 30, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$2,510	$4,696
Accrued employee benefits	1,144	1,090
Accrued payroll and payroll taxes	809	1,207
Other	714	698
Total current liabilities	5,177	7,691
Deferred tax liabilities	2,263	2,288
Total liabilities	7,440	9,979
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common Stock:		
Class A, $1 par value; authorized 5,000,000 shares issued and outstanding, 2,014,842 and 2,030,658 shares, respectively	2,015	2,031
Class B, $1 par value; authorized 2,500,000 shares; issued and outstanding, 383,254 and 387,629 shares, respectively	384	388
Unrealized losses on investments, net of tax	(5)	(59)
Retained earnings	71,807	68,500
Total shareholders' equity	74,201	70,860
Total liabilities and shareholders' equity	$81,641	$80,839

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

McRae Industries, Inc. and Subsidiaries

(In thousands, except share data)

For Years Ended	**July 29, 2017**	**July 30, 2016**	**August 1, 2015**
Net revenues	$104,316	$108,758	$108,673
Cost of revenues	78,739	81,837	79,347
Gross profit	25,577	26,921	29,326
Selling, general and administrative expenses	17,755	19,782	19,025
Operating profit	7,822	7,139	10,301
Other income	357	366	324
Interest expense	-	-	(2)
Earnings before income taxes	8,179	7,505	10,623
Provision for income taxes	3,096	2,813	3,982
Net earnings	$5,083	$4,692	$6,641
Other comprehensive income, net of tax:			
Unrealized gains (losses) on investments	54	(59)	-
Total comprehensive income	$5,137	$4,633	$6,641
Earnings per common share:			
Earnings per common share:			
Diluted earnings per share:			
Class A	2.11	1.93	2.73
Class B	NA	NA	NA
Weighted average number of common shares outstanding:			
Class A	2,024,470	2,035,906	2,038,645
Class B	385,830	389,271	391,879
Total	2,410,300	2,425,177	2,430,524

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

McRae Industries, Inc and Subsidiaries

(Dollars in thousands)	Common Stock, $1 par value				Accumulated Other	
	Class A		Class B		Comprehensive	Retained
	Shares	Amount	Shares	Amount	Income (Loss)	Earnings
Balance, August 2, 2014	2,038,543	$2,039	391,981	$392	$ -	$60,019
Conversion of Class B to Class A Stock	792	1	(792)	(1)		-
Cash Dividend ($.52 per Class A common stock)						(1,060)
Cash Dividend ($.52 per Class B common stock)						(203)
Net earnings						6,641
Balance, August 1, 2015	2,039,335	$2,040	391,189	$391	$ -	$65,397
Purchase of ESOP distribution shares	(9,164)	(9)	(3,073)	(3)		(330)
Unrealized losses on investments, net of tax					(59)	
Conversion of Class B to Class A Stock	487	-	(487)	-		-
Cash Dividend ($.52 per Class A common stock)						(1,057)
Cash Dividend ($.52 per Class B common stock)						(202)
Net earnings						4,692
Balance, July 30, 2016	2,030,658	$2,031	387,629	$388	($59)	$68,500
Purchase of ESOP distribution shares	(16,346)	(16)	(3,845)	(4)		(525)
Unrealized losses on investments, net of tax					54	
Conversion of Class B to Class A Stock	530	-	(530)	-		-
Cash Dividend ($.52 per Class A common stock)						(1,051)
Cash Dividend ($.52 per Class B common stock)						(200)
Net earnings						5,083
Balance, July 29, 2017	2,014,842	$2,015	383,254	$384	($5)	$71,807

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

McRae Industries, Inc. and Subsidiaries

(In thousands)

For Years Ended	**July 29, 2017**	**July 30, 2016**	**August 1, 2015**
Cash Flows from Operating Activities:			
Net earnings	$5,083	$4,692	$6,641
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	1,211	907	785
Amortization of bond premiums	-	-	3
(Gain) loss on sale of assets	(2)	(6)	-
Loss on sale of securities	6	62	-
Deferred income taxes	398	951	(75)
Changes in operating assets and liabilities:			
Accounts receivable, net	377	2,928	(2,208)
Inventories	9,671	(2,187)	(3,469)
Prepaid expenses and other assets	(117)	99	21
Accounts payable	(2,186)	(903)	1,821
Accrued employee benefits	54	(537)	(171)
Accrued payroll and payroll taxes	(398)	(18)	64
Income tax receivable/payable	726	(933)	816
Other	16	146	89
Net cash provided by operating activities	**14,839**	**5,201**	**4,317**
Cash Flows from Investing Activities:			
Proceeds from sale of assets	13	15	-
Purchase of land for investment	-	(17)	(9)
Capital expenditures	(465)	(3,237)	(3,380)
Proceeds from sale of securities	833	484	75
Purchase of securities	(1,040)	(609)	(3,183)
Net cash used in investing activities	**(659)**	**(3,364)**	**(6,497)**
Cash Flows from Financing Activities:			
Purchase of common stock	(545)	(342)	-
Dividends paid	(1,251)	(1,259)	(1,263)
Net cash used in financing activities	**(1,796)**	**(1,601)**	**(1,263)**
Net Increase (Decrease) in Cash and Cash equivalents	12,384	236	(3,443)
Cash and Cash Equivalents at Beginning of Year	15,673	15,437	18,880
Cash and Cash Equivalents at End of Year	**$28,057**	**$15,673**	**$15,437**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
McRae Industries, Inc. and Subsidiaries
As of and for the Years Ended July 29, 2017, July 30, 2016, and August 1, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

McRae Industries, Inc., (the "Company", which may be referred to as "we", "us" or "our"), is a Delaware corporation organized in 1983 and is the successor to a North Carolina corporation organized in 1959. Our principal lines of business are: manufacturing and selling military combat boots and importing and selling western and work boots.

Principles of Consolidation

The consolidated financial statements include the accounts of all of the Company's wholly owned subsidiaries and other businesses over which we exercise significant control. All significant intercompany transactions and balances have been eliminated in consolidation.

Total assets and net revenues for each of our main business units are as follows:

	(In thousands)		
	2017	**2016**	**2015**
Total Assets:			
Western/Work Boots	$ 30,443	$ 35,131	$ 36,441
Military Boots	12,037	17,698	13,060
Other	41	50	55

	(In thousands)		
	2017	**2016**	**2015**
Total Net Revenues:			
Western/Work Boots	$ 58,312	$ 68,912	$ 79,483
Military Boots	45,621	39,628	29,001
Other	383	218	189

Use of Estimates

The timely 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 certain reported amounts and disclosures. Actual results could differ from those estimates. The economic price adjustment related to our military combat boot contract is subject to certain price variations for leather.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits with banks and certificates of deposit purchased with an original maturity date of three months or less.

Accounts Receivable

Accounts receivable are stated at amounts expected to be collected from outstanding balances. Probable uncollectible accounts are reserved for by a charge to earnings and a credit to the allowance for doubtful accounts based on the assessment of the current status of individual accounts. Balances that are still outstanding after using reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable. The Company performs on-going credit evaluations of its customers' financial condition and establishes an allowance for losses on trade receivables based upon factors surrounding the credit risk of specific customers, historical trends, and other information.

Our western and work boot business records an allowance for sales returns which is calculated by applying historical return data to sales subject to potential returns. The allowance for sales returns, which is different from the allowance noted in the preceding paragraph, is included as a component of the allowance presented on the balance sheet. This component totaled approximately $575,000 and $875,000 for fiscal 2017 and fiscal 2016, respectively.

Inventories

Inventories are stated at the lower of cost or market value using the last-in, first-out (LIFO) method for military boots and using the first-in, first-out (FIFO) method for all other inventories. We regularly review our FIFO basis inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated forecast and demand requirements for the next twelve months. Actual demand and market conditions may be different from those projected by our management primarily as a result of fashion cycles and trends and the overall financial condition of competitors in the western and work boot business. A one percentage point error in our inventory allowances would approximate $4,200 and $6,561 for the fiscal years ended July 29, 2017, and July 30, 2016, respectively.

Marketable Securities

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold securities to their maturity. Held-to-maturity securities are recorded as either short term or long term on the consolidated balance sheets, based on their contractual maturity date and are stated at amortized cost. Investments in debt or equity securities that are not classified as held-to-maturity are carried at fair value and classified as available-for-sale. Realized and unrealized gains and losses on available-for-sale securities are included in other comprehensive income. Refer to Note 10 for additional information related to the Company's available-for-sale securities.

Long-Lived Assets and Other Intangibles

The Company reviews long-lived assets with estimable useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

The Company tests identifiable intangible assets with an indefinite life for impairment annually. Furthermore, such assets are required to be tested for impairment on an interim basis if an event or circumstance indicates that it is more likely than not an impairment loss has been incurred. An impairment loss shall be recognized to the extent that the carrying amount of such assets exceeds its implied fair value. Impairment losses shall be recognized in operations. The Company's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and projections of future operating performance. If these assumptions differ materially from future results, the Company may record impairment charges in the future. Based on its most recent analysis, the Company believes that no impairment exists as of July 29, 2017 and July 30, 2016, respectively.

Revenue Recognition

Sales of the Company are recognized as revenues when goods are shipped and title passes to the buyer. Our military boot sales to the U.S. Government under our current contracts are recognized as revenues when the goods are received at their designated depot.

Income Taxes

The Company accounts for income taxes under the asset and liability method. Federal and state income taxes are computed at current tax rates, less tax credits. Taxes are adjusted both for items that do not have tax consequences and for the cumulative effect of any changes in tax rates from those previously used to determine deferred tax assets or liabilities. Tax provisions include amounts that are currently payable, plus changes in deferred tax assets and liabilities that arise because of temporary differences between the time when items of income and expense are recognized for financial reporting and income tax purposes. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not such assets will be realized.

The Company follows the applicable authoritative guidance related to accounting for uncertainty in income tax reporting. This guidance clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements. It also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The Company's policy is to recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense. The Company has recognized no interest or penalties since the adoption of the accounting guidance related to accounting for uncertainty in income taxes.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal income tax examinations for fiscal years ending before 2014. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carry forward amount.

Earnings per Share

Under our Articles of Incorporation, we may pay dividends on our Class A Common Stock in excess of the dividends we pay on our Class B Common Stock. As a result, we have computed our earnings per share in compliance with the applicable authoritative guidance. This guidance requires companies that have multiple classes of equity securities to use the "two class" or "if converted method" in computing earnings per share.

For our diluted earnings per share calculation, we use the if-converted method. This calculation assumes that all Class B Common Stock is converted into Class A Common Stock. As a result, there are no holders of Class B Common Stock to participate in undistributed earnings. Furthermore, for Class A shares, distributed earnings with respect to Class A and all undistributed earnings are used to calculate diluted earnings per share.

Earnings per share has been presented in accordance with the applicable guidance. We believe that the holders of Class A and Class B Common Stock have equal rights to the Company's undistributed earnings, and that our calculation best expresses economic reality.

The Company had no common stock equivalents issued or outstanding for the three-year period ended July 29, 2017.

Advertising

The Company charges advertising costs when incurred as a component of selling, general and administrative expenses. Advertising expense amounted to approximately $487,000, $1,029,000, and $970,000 for fiscal years 2017, 2016, and 2015, respectively.

Shipping and Handling

Shipping and handling costs that are charged to and reimbursed by the customer are recognized as revenues, while the related expenses, including buying, postage, external distribution and warehousing costs incurred by the Company are recorded as components of cost of goods sold in the consolidated statements of operations.

Split-Dollar Life Insurance

The Company is party to a split-dollar arrangement with respect to certain life insurance policies. We record an amount that is to be realized under the split dollar agreement. This amount is the actual premiums paid by the Company or the actual cash surrender value of the policy, whichever is less.

Real Estate Held for Investment

Real estate held for investment is land recorded at cost plus the cost of any improvements. Land is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

2. INVENTORIES

Current costs exceeded the LIFO value of inventories by approximately $814,000 and $715,000 at July 29, 2017 and July 30, 2016, respectively. Year-end inventories valued under the LIFO method were approximately $5,907,000 and $10,861,000 at July 29, 2017 and July 30, 2016, respectively. For fiscal 2016, lower FIFO pricing resulted in a decreased LIFO reserve, which increased net earnings by approximately $83,000, as compared to higher FIFO pricing for fiscal 2017 resulting in an increased LIFO reserve, which decreased net earnings by approximately $62,000.

Inventory reserves applicable to the FIFO inventories totaled approximately $420,000 and $656,000 for fiscal 2017 and fiscal 2016, respectively.

The components of inventory, net of reserves, at each year-end are as follows:

	(In thousands)	
	2017	**2016**
Raw materials	$ 2,670	$ 4,817
Work-in-process	966	3,297
Finished goods	14,637	19,830
	$ 18,273	$ 27,944

3. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from three years for computer equipment to thirty-one and one-half years for buildings. Expenditures for routine maintenance and repairs are charged to expense as incurred.

Property and equipment at July 29, 2017 and July 30, 2016 consisted of the following:

	(In thousands)	
	2017	**2016**
Land and improvements	$ 612	$ 604
Buildings	6,906	6,760
Machinery and equipment	6,315	6,084
Furniture and fixtures	5,322	5,241
Construction in progress	0	31
	19,155	18,720
Less: Accumulated depreciation	(11,764)	(10,573)
	$ 7,391	$ 8,147

Depreciation expense for fiscal years ended 2017, 2016, and 2015 was approximately $1,211,000, $907,000, and $785,000, respectively.

4. MARKETABLE SECURITIES

The components of our marketable securities as of July 29, 2017 and July 30, 2016 are as follows:

	(In thousands)	
	2017	**2016**
Available-for-sale:		
Short term equity securities	$ 505	$ 501
Long term equity securities	3,804	3,520
	$ 4,309	$ 4,021

5. NOTES PAYABLE AND LINES OF CREDIT

Lines of Credit

The Company has a $5,000,000 revolving line of credit with a bank. The Company had no outstanding borrowings under this line of credit as of July 29, 2017 and July 30, 2016. This line of credit provides for interest on outstanding balances to be paid monthly at the prime rate less 1.0%. This line of credit expires in January 2018 and is secured by the inventory and accounts receivable of the Company's western and work boot subsidiary.

The Company has an additional $1,750,000 line of credit with a bank. This line is restricted to 100% of the outstanding accounts receivable due from the U.S. Government. There were no outstanding borrowings under this line of credit as of July 29, 2017 and July 30, 2016. The line of credit expires in January 2018 and provides for interest on outstanding balances to be paid monthly at the prime rate.

6. EMPLOYEE BENEFIT PLANS

The Company's employee benefit program consists of an employee stock ownership plan, a 401-K retirement plan, a cash bonus program, incentive awards, and other specified employee benefits as approved by the Board of Directors.

The employee stock ownership plan (ESOP) covers substantially all employees. Its principal investments include shares of Class A Common Stock and Class B Common Stock of the Company and collective funds consisting of short-term cash, fixed-income, and equity investments. There have been no contributions to the ESOP in fiscal years 2017, 2016 or 2015.

The Company has a 401-K retirement plan, which covers substantially all employees. Employees can contribute up to 25% of their annual salary to the plan. At its sole discretion, the Board of Directors determines the amount and timing of any Company matching contribution. The Company's contributions were approximately $308,000, $292,000, and $295,000, for the fiscal years ended 2017, 2016, and 2015, respectively.

Employee benefit program expense amounted to approximately $1,439,000, $1,369,000, and $1,903,000, for the fiscal years ended 2017, 2016 and 2015, respectively.

7. INCOME TAXES

Significant components of the provision for income taxes are as follows (in thousands):

	2017	2016	2015
Current expense			
Federal	$ 2,549	$ 1,706	$ 3,699
State	149	156	358
	2,698	1,862	4,057
Deferred expense			
Federal	338	808	(64)
State	60	143	(11)
	$ 3,096	$ 2,813	$ 3,982

The components of the provision (benefit) for deferred income taxes are as follows (in thousands):

	2017	2016	2015
Depreciation	$ (109)	$ 758	$ (76)
Accrued employee benefits	2	204	64
Allowances for doubtful accounts	64	114	(19)
Allowance for sales returns	125	20	(129)
Inventory	166	6	52
State net operating loss carry forward	106	(54)	(19)
Economic Price Adjustment Claim	4		
Amortization	(1)	71	72
Prepaid Expenses	53	(98)	5
Self Insurance Reserve	9	(70)	(25)
Other	(21)		
Provision for deferred income taxes	$ 398	$ 951	$ (75)

Deferred tax liabilities and assets at each year-end are as follows (in thousands):

	2017	2016
Noncurrent deferred assets (liabilities)		
Amortization	$ (885)	$ (886)
Gain on Like Kind Exchange	(370)	(391)
Depreciation	(1,113)	(1,222)
State net operating loss carry forward	105	211
Net noncurrent deferred tax liabilities	(2,263)	(2,288)
Current deferred tax assets (liabilities)		
Self Insurance	162	171
Accrued employee benefits	412	414
Allowances for doubtful accounts	221	285
Allowance for sales returns	207	332
Inventory	658	824
Economic Price Adjustment Claim	64	68
Prepaid Expenses	(53)	0
Unrealized (Gain)/Loss	3	36
Net current deferred tax assets	1,674	2,130
Net deferred tax assets	$ (589)	$ (158)

State net operating loss carry forwards of $3.5 million will expire through fiscal 2024.

The reconciliation of income tax computed at the U.S. federal statutory tax rate to actual income tax expense are (in thousands):

	2017		2016		2015	
	Amount	Percent	Amount	Percent	Amount	Percent
Tax at U.S. statutory rate	$2,781	34.0 %	$2,552	34.0 %	$3,612	34.0 %
State income taxes, net of federal tax benefit	138	1.7 %	197	2.6 %	229	2.2 %
Tax adjustments	139	1.7 %	154	2.1 %	150	1.4 %
Other – net	38	0.5 %	(90)	(1.2) %	(9)	(.1) %
	$3,096	37.9 %	$2,813	37.5 %	$3,982	37.5 %

The items included as "other-net" relate to permanent differences, adjustment for non tax consolidated entities, and prior year tax provision to return adjustments.

Total income tax payments during fiscal years 2017, 2016 and 2015 were approximately $2,104,000, $2,918,000, and $3,363,000, respectively.

The Company follows the applicable authoritative guidance related to accounting for uncertainty in income tax reporting. As of July 29, 2017, management has concluded no related liability is necessary.

8. COMMITMENTS AND CONTINGENCIES

Lease Agreements

The Company leases certain offices and equipment under non-cancelable operating leases. Rental expenses on all operating leases were $725,000, $559,000, and $555,000, for fiscal years ended 2017, 2016, and 2015, respectively. The future non-cancelable lease payments as of July 29, 2017 are as follows:

	2018	2019	2020	2021	2022
Lease Payments	$538,000	$538,000	$538,000	$536,000	$536,000

The Company leases approximately 34,000 square feet of office and warehouse space to Toshiba Business Solutions, Inc. The original lease and subsequent amendments covered a base year period and additional periods through August 31, 2016. In February 2016, the lease was amended to cover a three-year period beginning on September 1, 2016. These lease and facility charge payments are reported as a component of "Other Income". The future minimum lease and facility charge payments are as follows:

	2018	2019
Lease Payments	$50,000	$50,000
Facility Charges	$71,271	$72,697

Concentrations

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and receivables. The Company maintains substantially all of its cash and certificates of deposits with a financial institution in amounts that are in excess of the federally insured limits, which totaled approximately $28 million, $16 million, and $15 million, for fiscal 2017, 2016, and 2015, respectively. Management performs periodic evaluations of the relative credit standing of this financial institution.

Concentrations of credit risk with respect to receivables are minimal due to the large number of entities comprising the Company's customer base and their dispersion across many different industries. The Company does not require collateral on trade accounts receivable. As of July 29, 2017 and July 30, 2016, twenty-one customers accounted for 62% and 65% of accounts receivable, respectively.

Synthetic rubber used in our vulcanizing military boot operation is currently available and purchased from the only domestic supplier known to us. Synthetic rubber is available from foreign suppliers; however, an exemption would be required from the U.S. Government to purchase synthetic rubber in the foreign market. The Vibram rubber specified outsoles are a registered product available only from Vibram USA and we depend on their ability to supply our needs. This supplier provided Vibram rubber outsoles for approximately $4.3 million and $4.5 million at July 29, 2017 and July 30, 2016 respectively.

Sales to the U.S. Government amounted to 38%, 28%, and 19%, of total consolidated net revenues for fiscal years ended 2017, 2016, and 2015, respectively. Under the terms of sale to the U.S. Government, the negotiated contract prices of combat boots are subject to renegotiation if certain conditions are present. Management does not currently expect renegotiation, if any, to have a material adverse effect on the Company's consolidated financial position or results of operations.

9. SHAREHOLDERS' EQUITY

Common Stock

The Company's Bylaws provide for seven directors, two of whom are elected by the holders of the Class A Common Stock voting as a separate class, and five of whom are elected by the holders of the Class B Common Stock voting as a separate class. On all other matters (except matters required by law or the Company's Certificate of Incorporation or Bylaws to be approved by a different vote), the holders of Class A Common Stock and Class B Common Stock vote together as a single class with each share of Class A Common Stock entitled to one-tenth vote and each share of Class B Common Stock entitled to one vote. Each share of Class B Common Stock can be converted to Class A Common Stock on a share for share basis. All dividends paid on Class B Common Stock must also be paid on Class A Common Stock in an equal amount.

The Company has adopted the McRae Industries, Inc. 1998 Incentive Equity Plan (the Plan). Under the Plan, 100,000 shares of the Company's Class A Common Stock are reserved for issuance to certain key employees of the Company. At July 29, 2017, there were 100,000 shares available for future grants under the Plan.

The common stock is currently quoted in the Pink Sheets and stockholders are able to trade their shares in the over-the-counter markets or private transactions.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820 "Fair Value Measurements and Disclosures" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date (that is, an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date. In some circumstances, the entry and exit price may be the same; however, they are conceptually different. The accounting standards also establish a three-level hierarchy that prioritizes the inputs used in fair value measurements. The hierarchy consists of three broad levels as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities;
Level 2 – Observable inputs other than quoted prices within Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and
Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These include certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The fair values of the Company's available for sale securities are determined using quoted market prices in active markets for identical assets or liabilities which are classified as Level 1 inputs.

The following table presents those assets and liabilities that are measured at fair value as of July 29, 2017 (in thousands):

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 4,309	–	–	$ 4,309

The following table presents those assets and liabilities that are measured at fair value as of July 30, 2016 (in thousands):

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 4,021	–	–	$ 4,021

The fair value of our cash and cash equivalents, accounts and notes receivable, accounts payable, and accrued liabilities approximate their carrying values due to their liquid nature.

The amount due from Split-Dollar Life Insurance policies represents the value of the Company's rights under split-dollar arrangements. Under these arrangements, the Company is entitled to be repaid cumulative premiums paid, or if less, the net cash surrender value of the policies.

11. RELATED PARTY TRANSACTIONS

The Company leases administrative and sales office space in Clarksville, Tennessee for the western boot business from the President of Dan Post Boot Company. The annual rent is approximately $105,000.

12. SUBSEQUENT EVENTS

On September 6, 2017, the Company declared a cash dividend of $.13 per share on its Class A and Class B Common Stock payable on October 4, 2017 to shareholders of record on September 20, 2017.

Subsequent events have been evaluated through November 1, 2017, which is the date the financial statements were available to be issued.

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Executive Officers & Directors

Executive Officers

D. Gary McRae
Chairman of the Board, President,
Chief Executive Officer and Treasurer

James W. McRae
Vice-President and Secretary

Charles E. Covatch
President, McRae Footwear

Directors

D. Gary McRae
Chairman of the Board, President,
Chief Executive Officer and Treasurer

James W. McRae
Vice-President and Secretary

Victor A. Karam
Former President, McRae Footwear

Marvin G. Kiser, Sr.
Former Vice-President of Finance

Hilton J. Cochran, Jr.*
Executive Director,
Peacehaven Community Farm

Brady W. Dickson*
Consultant

Branson B. McRae
Compliance and Operations Manager,
Dan Post Boot Co.

**Members of Audit and Compensation Committees*

Shareholder Information

Shareholders

Requests for interim and annual reports or more information about the Company should be directed to:

Office of the Secretary
McRae Industries, Inc.
P. O. Box 1239
Mount Gilead, North Carolina 27306

Stock

McRae's common stock is traded on the Pink Sheets (MCRAA and MCRAB).

Transfer Agent, Registrar, and Dividend Disbursing Agent

American Stock Transfer & Trust Company
10150 Mallard Creek Road
Suite 307
Charlotte, North Carolina 28262

Annual Meeting

Thursday, December 21, 2017
Corporate Offices
400 North Main Street
Mount Gilead, North Carolina 27306

Independent Auditors

Grant Thornton LLP
201 South College St.
Suite 2500
Charlotte, North Carolina 28244

General Counsel

K&L Gates LLP
Hearst Tower
214 North Tryon Street
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