

## **McRAE INDUSTRIES, INC. REPORTS EARNINGS FOR FISCAL 2014**

**Mount Gilead, N.C. – November 11, 2014.** **McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for fiscal 2014 of \$103,629,000 as compared to \$97,071,000 for fiscal 2013. Net earnings for fiscal 2014 totaled \$7,548,000 as compared to \$7,498,000 for fiscal 2013. Net earnings per diluted Class A common share were \$3.51 for fiscal 2014 as compared to \$3.79 for fiscal 2013.

### **CONSOLIDATED RESULTS OF OPERATIONS, FISCAL 2014 COMPARED TO FISCAL 2013**

Consolidated net revenues for fiscal 2014 amounted to approximately \$103.6 million as compared to \$97.1 million for fiscal 2013. This 7% increase in net revenues was primarily attributable to strong performance in both of our boot product segments. Our western/lifestyle products business grew from \$62.8 million for fiscal 2013 to \$66.3 for fiscal 2014 as demand for both men and women's products continued to be heavy. Consolidated net revenues from our work boot product sales increased from \$33.3 million for fiscal 2013 to \$37.0 million for fiscal 2014. This 11% improvement in work boot net revenues resulted from higher military boot production levels associated with the new contracts received from the U.S. and Israeli governments in 2012, coupled with a contract we received in September 2013 to manufacture boots for the U.S. Marines. Net revenues associated with our other small businesses were insignificant for fiscal 2014 and are expected to be minimal in the future. For fiscal 2015, we are optimistic that the demand for our western/lifestyle products will remain strong and that the improved economy will have a positive impact on our non-military work boot business. Our military boot contracts are expected to provide a solid base for overall net revenue performance for fiscal 2015.

Consolidated gross profit for fiscal 2014 totaled \$30.1 million as compared to \$29.5 million for fiscal 2013. This 2% growth in gross profit resulted from increased net revenues associated with both of our boot segments. Gross profit as a percentage of net revenues fell from 30.4% for fiscal 2013 to 29.1% for fiscal 2014. This decline in gross profit as a percentage of net revenues was primarily the result of higher imported product costs, which was partially offset by improved margins associated with the military boot business. Imported product cost increases are expected to continue to apply pricing pressure which will potentially have an impact on our margins for fiscal 2015.

Consolidated selling, general and administrative ("SG&A") expenses increased nearly 4%, up from \$18.0 million for fiscal 2013 to \$18.7 million for fiscal 2014. This increase in SG&A expenses was the result of higher support costs associated with the increase in net revenues. As a percentage of net revenues, SG&A expenses for fiscal 2014 totaled 18.0% as compared to 18.5% for fiscal 2013. Increased expenditures for sales related compensation, operating supplies, advertising, donations, and professional fees were partially offset by reduced travel expenses, employee related costs, and bad debt charges.

As a result of the above, consolidated operating profit totaled approximately \$11.5 million for both fiscal 2014 and fiscal 2013.

## **FINANCIAL CONDITION AND LIQUIDITY**

At August 2, 2014, our financial condition and liquidity remained strong as cash and cash equivalents totaled \$18.9 million as compared to \$10.8 million at August 3, 2013. Our working capital increased from \$44.5 million at August 3, 2013 to \$51.2 million at August 2, 2014.

We currently have two lines of credit with a bank totaling \$6.75 million, all of which were fully available at August 2, 2014. One credit line totaling \$1.75 million (which is restricted to one hundred percent of the outstanding receivables due from the Government) expires in January 2015. The \$5.0 million line of credit, which also expires in January 2015, is secured by the inventory and accounts receivable of our Dan Post Boot Company subsidiary.

We believe that our current cash and cash equivalents, cash generated from operations, and available credit lines will be sufficient to meet our capital requirements for fiscal 2015.

Net cash provided by operating activities for fiscal 2015 amounted to approximately \$9.8 million. Net earnings, as adjusted for depreciation, contributed approximately \$8.3 million of cash. The decrease in accounts receivable contributed approximately \$2.0 million of cash as a result of the timing of collection related to lower fourth quarter sales. The reduction in inventory levels contributed approximately \$0.8 million of cash. The timing of payment for accounts payable, accrued employee benefits, accrued payroll and income tax payments used approximately \$1.2 million of cash.

Net cash used in investing activities totaled approximately \$0.6 million. Capital expenditures, primarily for manufacturing equipment, office equipment and air handling equipment, used approximately \$0.7 million of cash.

Net cash used in financing activities totaled approximately \$1.2 million, as a result of dividend payments.

## **FORWARD-LOOKING STATEMENTS**

This press release includes certain forward-looking statements. Important factors that could cause actual results or events to differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements include: the effect of competitive products and pricing, risks unique to selling goods to the Government (including variation in the Government's requirements for our products and the Government's ability to terminate its contracts with vendors), changes in fashion cycles and trends in the western boot business, loss of key customers, acquisitions, supply interruptions, additional financing requirements, our expectations about future Government orders for military boots, loss of key management personnel, our ability to successfully develop new products and services, and the effect of general economic conditions in our markets.

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**McRae Industries, Inc. and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)

	<b>August 2, 2014</b>	<b>August 3, 2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$18,880	\$10,804
Short term securities	76	0
Accounts and notes receivable, less allowances of \$1,586 and \$1,521, respectively	13,428	15,394
Inventories, net	22,288	23,046
Income tax receivable	938	0
Prepaid expenses and other current assets	553	482
Deferred tax assets	2,218	2,168
Total current assets	58,381	51,894
Property and equipment, net	3,222	3,319
Other assets:		
Deposits	14	0
Long term securities	872	958
Real estate held for investment	3,585	3,626
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Total other assets	9,583	9,696
Total assets	\$71,186	\$64,909

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**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)

	<u>August 2, 2014</u>	<u>August 3, 2013</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$3,778	\$4,054
Accrued employee benefits	1,798	1,707
Accrued payroll and payroll taxes	1,161	1,209
Income tax payable	0	74
Other	<u>463</u>	<u>399</u>
Total current liabilities	<u>7,200</u>	<u>7,443</u>
Deferred tax liabilities	<u>1,536</u>	<u>1,399</u>
Total liabilities	<u>8,736</u>	<u>8,842</u>
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,038,543 and 2,037,605 shares, respectively	2,039	2,038
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 391,981 and 392,919 shares, respectively	392	393
Retained earnings	<u>60,019</u>	<u>53,636</u>
Total shareholders' equity	<u>62,450</u>	<u>56,067</u>
Total liabilities and shareholders' equity	<u><u>\$71,186</u></u>	<u><u>\$64,909</u></u>

**McRae Industries, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except share data)

<b>For Years Ended</b>	<u>August 2, 2014</u>	<u>August 3, 2013</u>	<u>July 28, 2012</u>
Net revenues	\$103,629	\$97,071	\$75,684
Cost of revenues	<u>73,488</u>	<u>67,539</u>	<u>52,329</u>
Gross profit	30,141	29,532	23,355
Selling, general and administrative expenses	<u>18,660</u>	<u>18,005</u>	<u>15,671</u>
Operating profit	11,481	11,527	7,684
Other income	311	204	249
Interest expense	<u>(3)</u>	<u>(2)</u>	<u>(1)</u>
Earnings before income taxes	11,789	11,729	7,932
Provision for income taxes	<u>4,241</u>	<u>4,231</u>	<u>3,090</u>
Net earnings	<u><u>\$7,548</u></u>	<u><u>\$7,498</u></u>	<u><u>\$4,842</u></u>
Earnings per common share:			
Earnings per common share:			
Basic earnings per share:			
Class A	\$4.18	\$4.54	\$2.73
Class B	0.48	0.77	0
Diluted earnings per share:			
Class A	3.51	3.79	2.27
Class B	NA	NA	NA
Weighted average number of common shares outstanding:			
Class A	2,038,469	2,035,034	2,038,902
Class B	392,055	399,878	414,853
Total	<u><u>2,430,524</u></u>	<u><u>2,434,912</u></u>	<u><u>2,453,755</u></u>

**McRae Industries, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

<b>For Years Ended</b>	<b>August 2, 2014</b>	<b>August 3, 2013</b>	<b>July 28, 2012</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Cash Flows from Operating Activities:</b>			
Net earnings	\$7,548	\$7,498	\$4,842
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	748	686	640
Amortization of bond premiums	10	11	0
(Gain) loss on sale of assets	(40)	(282)	45
Deferred income taxes	87	(441)	26
Changes in operating assets and liabilities:			
Accounts receivable, net	1,966	(3,612)	(801)
Inventories	758	(3,474)	(961)
Prepaid expenses and other assets	(85)	(87)	(219)
Accounts payable	(276)	681	618
Accrued employee benefits	91	549	307
Accrued payroll and payroll taxes	(48)	206	(84)
Income tax receivable/payable	(1,012)	283	68
Other	64	(347)	(9)
<b>Net cash provided by operating activities</b>	<b><u>9,811</u></b>	<b><u>1,671</u></b>	<b><u>4,472</u></b>
 <b>Cash Flows from Investing Activities:</b>			
Proceeds from sale of assets	87	390	8
Proceeds from maturing bond	0	75	0
Purchase of land for investment	(7)	(59)	(23)
Capital expenditures	(650)	(891)	(767)
Purchase of securities	0	(1,044)	0
<b>Net cash used in investing activities</b>	<b><u>(570)</u></b>	<b><u>(1,529)</u></b>	<b><u>(782)</u></b>
 <b>Cash Flows from Financing Activities:</b>			
Purchase of common stock	0	(161)	(356)
Issuance of common stock	0	5	0
Dividends paid	(1,165)	(2,056)	(734)
<b>Net cash used in financing activities</b>	<b><u>(1,165)</u></b>	<b><u>(2,212)</u></b>	<b><u>(1,090)</u></b>
 <b>Net (Decrease) Increase in Cash and Cash equivalents</b>	<b>8,076</b>	<b>(2,070)</b>	<b>2,600</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b><u>10,804</u></b>	<b><u>12,874</u></b>	<b><u>10,274</u></b>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u><u>\$18,880</u></u></b>	<b><u><u>\$10,804</u></u></b>	<b><u><u>\$12,874</u></u></b>