2020

ANNUAL

REPORT

McRae Industries

FORTITUDINE

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	8/1/20	8/3/19	7/28/18	7/29/17	7/30/16
(In thousands, except per share data)					
INCOME STATEMENT DATA:					
Net revenues	$ 69,311	$ 82,154	$ 73,892	$ 104,316	$ 108,758
Net earnings (loss)	(77)	2,118	2,190	5,083	4,692
Net earnings per common share					
Diluted Earnings per share[a]:					
Class A	(0.03)	0.89	0.91	2.11	1.93
Class B	NA	NA	NA	NA	NA
BALANCE SHEET DATA:					
Total assets	$ 77,929	$ 79,354	$ 80,364	$ 81,641	$ 80,839
Long-term liabilities	692	704	621	2,263	2,288
Working capital[b]	57,539	54,457	55,435	56,542	52,753
Shareholders' equity	71,817	73,323	74,989	74,201	70,860
Weighted average number of common shares outstanding:					
Class A	1,965,652	2,018,940	2,018,701	2,024,470	2,035,906
Class B	373,517	374,064	378,020	385,830	389,271
Weighted average number of common shares outstanding[c]:	2,339,169	2,393,004	2,396,721	2,410,300	2,425,177
Cash dividends per Class A common share:	$ 0.52	$ 0.52	$ 0.52	$ 0.52	$ 0.52
Cash dividends per Class B common share:	$ 0.52	$ 0.52	$ 0.52	$ 0.52	$ 0.52
Special Cash dividend per Class A and Class B common share	$ 0.00	$ 0.50	$ 0.00	$ 0.00	$ 0.00

(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) Working capital increased $4.1 million from 2019 to 2020 due to the adoption of a new accounting standard and long term securities being reclassified to short term. See Note 4 to the consolidated financial statements included in this report.

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

LETTER

TO

SHAREHOLDERS

McRae Industries

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Dear Valued Shareholders,

Thank you for the opportunity to report the operating results for McRae Industries, Inc. for fiscal 2020. It has certainly been a year of unexpected and unprecedented external events that negatively affected our business beginning in March 2020 and continuing through the end of fiscal 2020. Our hearts go out to those families that lost loved ones due to the COVID-19 virus or suffered financial loss. We express our sincere appreciation to the many essential health care workers for their tireless efforts in treating and caring for those affected by this virus.

For fiscal 2020, net revenues decreased approximately 15.6% from $82.1 million for fiscal 2019 to $69.3 million for fiscal 2020. Net income decreased from $2.1 million for fiscal 2019 to a loss of $.1 million for fiscal 2020. The decrease in sales and earnings was primarily the result of a decline across all of our brands due to the effects of the COVID-19 pandemic.

Our western and lifestyle segment which includes western wear, ladies' fashion, and children footwear products under Dan Post, Laredo, Dingo, Code West, and Eldorado brand names experienced a decrease in revenue of 13.3% from $46.2 million in fiscal 2019 to $40.1 million in fiscal 2020. Net revenues for our work boot business decreased from $35.6 million in fiscal 2019 to $29.0 million in fiscal 2020. This decrease was primarily driven by lower military boot sales due to the COVID-19 pandemic as well as a decrease in military boot orders from the United States Government. There was also a decrease due to the exit of the John Deere brand which was offset by increased sales of Dan Post work boots.

We enter fiscal 2021 with our eyes open to the challenges we face as the COVID-19 pandemic continues unabated with opinions of when some sort of normalcy will return ranging from 12-18 months. Over the past 8 months, we have learned how to operate differently and continue to design and source new products, make face to face as well as virtual sales calls, and operate efficiently with many employees working part of the time or full time from home.

For Dan Post Boot Company, sales and orders continued to improve through the fourth quarter of fiscal 2020 and on into the first quarter of fiscal 2021. We have no way of knowing if this trend will continue but we are still working hard trying to grow our business. We have introduced new western products from Dan Post and Laredo that we are showing to retailers and are introducing Gen 2 of our successful Dan Post Hurricane series of work boots. We are also introducing new and exciting western fashion footwear from Dingo and Code West. We continue to grow our e-commerce business, both in house and with retailers and are partnering with major western retailers and farm and ranch stores on future orders. The operating and financial results for fiscal

2021 will be determined for a large part on how the COVID-19 pandemic continues to affect our retail customers, consumers, and vendors. Dan Post Boot Company has strong brands, a diversified customer base, and a great team of knowledgeable and dedicated associates which should help accelerate our recovery.

McRae Footwear will have numerous challenges in fiscal 2021 as the forecast for military boots from the United States Government has recently been received. Demand for the Army hot weather military boot and Marine hot weather military boot is less than expected, while the Army temperate weather boot is still overstocked to the point that there aren't any orders forecasted for fiscal 2021. We have a contract with the Israeli IDF for military combat boots which will run through calendar 2021. Our commercial military boot business is having some success as we continue to develop new products and customers. We entered a bid for a Marine temperate weather boot solicitation in October 2020 and do not expect any award to be made where it will affect fiscal 2021 production. Our fiscal 2021 success will be determined by the quantity of military boot orders from the United States Government, growth in our commercial military boot business, and the efficiency of our manufacturing operation.

We have been pleasantly surprised by our customers' ability to make payments during these trying times. The Company has also made every effort to reduce costs where possible and spend only where necessary to grow the business. As a result, cash from operations provided approximately $6.7 million. With an additional $2.9 million provided by investing activities and $1.4 million used by financing activities, cash and cash equivalents at the end of fiscal 2020 amounted to approximately $21.0 million. Although we remain cautious about what is to come in fiscal 2021, we believe that the Company's current cash position will be sufficient to support our operating activities and management will continue to monitor the business to determine the best use of capital.

Fiscal 2020 has been a difficult year for all of us at McRae Industries. I would like to thank all of our associates, from our corporate staff to McRae Footwear and Dan Post Boot Company employees, for their effort under sometimes very trying circumstances to make our company successful.

The Board of Directors offers our sincere gratitude to our shareholders, employees, and business partners for their continued support.

Sincerely,

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 August 1, 2020 and August 3, 2019, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended August 1, 2020 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 August 1, 2020 and August 3, 2019, and the results of their operations and their cash flows for each of the three years in the period ended August 1, 2020, in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Charlotte, North Carolina
October 28, 2020

CONSOLIDATED BALANCE SHEETS
McRae Industries, Inc. and Subsidiaries

(Dollars in thousands)	**August 1, 2020**	**August 3, 2019**
ASSETS		
Current assets:		
Cash and cash equivalents	$20,959	$12,799
Equity investments with readily determinable fair values	4,131	-
Debt securities	9,750	13,209
Accounts and notes receivable, less allowances of $745 and $1,017, respectively	8,027	12,975
Inventories, net	18,255	19,761
Income tax receivable	979	406
Prepaid expenses and other current assets	858	634
Total current assets	62,959	59,784
Property and equipment, net	6,060	6,612
Other assets:		
Deposits	14	14
Long term securities	-	4,032
Real estate held for investment	3,784	3,800
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Total other assets	8,910	12,958
Total assets	$77,929	$79,354

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

CONSOLIDATED BALANCE SHEETS
McRae Industries, Inc. and Subsidiaries

(Dollars in thousands)	August 1, 2020	August 3, 2019
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$3,871	$3,403
Accrued employee benefits	400	460
Accrued payroll and payroll taxes	457	713
Other	692	751
Total current liabilities	5,420	5,327
Deferred tax liabilities	692	704
Total liabilities	6,112	6,031
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common Stock:		
Class A, $1 par value; authorized 5,000,000 shares issued and outstanding, 1,957,142 and 1,967,559 shares, respectively	1,957	1,967
Class B, $1 par value; authorized 2,500,000 shares; issued and outstanding, 373,233 and 373,675 shares, respectively	373	374
Unrealized losses on investments, net of tax	-	(12)
Retained earnings	69,487	70,994
Total shareholders' equity	71,817	73,323
Total liabilities and shareholders' equity	$77,929	$79,354

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

McRae Industries, Inc. and Subsidiaries

(Dollars in thousands)

For Years Ended	August 1, 2020	August 3, 2019	July 28, 2018
Net revenues	$69,311	$82,154	$73,892
Cost of revenues	53,763	62,851	55,182
Gross profit	15,548	19,303	18,710
Selling, general and administrative expenses	15,973	17,005	16,431
Operating profit (loss)	(425)	2,298	2,279
Other income	562	654	443
Interest expense	-	(3)	(1)
Investment income (loss)	(59)	-	-
Earnings before income taxes	78	2,949	2,721
Provision for income taxes	155	831	531
Net earnings (loss)	($77)	$2,118	$2,190
Other comprehensive income, net of tax:			
Unrealized gains (losses) on investments	-	16	(23)
Total comprehensive income	($77)	$2,134	$2,167
Earnings per common share:			
Diluted earnings per share:			
Class A	$ (0.03)	$ 0.89	$ 0.91
Class B	NA	NA	NA
Weighted average number of common shares outstanding:			
Class A	1,965,652	2,018,940	2,018,701
Class B	373,517	374,064	378,020
Total	2,339,169	2,393,004	2,396,721

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, July 29, 2017	2,014,842	$2,015	383,254	$384	($5)	$71,807
Stock Buyback	(3,116)	(3)	(734)	(1)		(129)
Unrealized losses on investments, net of tax					(23)	
Conversion of Class B to Class A Stock	8,248	8	(8,248)	(8)		-
Cash Dividend ($0.52 per Class A common stock)						(1,050)
Cash Dividend ($0.52 per Class B common stock)						(196)
Net earnings						2,190
Balance, July 28, 2018	2,019,974	$2,020	374,272	$375	($28)	$72,622
Stock Buyback	(52,627)	(53)	(385)	(1)		(1,307)
Unrealized gains on investments, net of tax					16	
Conversion of Class B to Class A Stock	212	-	(212)	-		-
Cash Dividend ($1.02 per Class A common stock)						(2,059)
Cash Dividend ($1.02 per Class B common stock)						(380)
Net earnings						2,118
Balance, August 3, 2019	1,967,559	$1,967	373,675	$374	($12)	$70,994
Stock Buyback	(10,417)	(10)	(442)	(1)		(202)
Adoption of accounting standards[1]					12	(13)
Cash Dividend ($0.52 per Class A common stock)						(1,021)
Cash Dividend ($0.52 per Class B common stock)						(194)
Net earnings						(77)
Balance, August 1, 2020	1,957,142	$1,957	373,233	$373	$0	$69,487

[1]Refer to note 4

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
McRae Industries, Inc. and Subsidiaries

(Dollars in thousands)

For Years Ended	**August 1, 2020**	**August 3, 2019**	**July 28, 2018**
Cash Flows from Operating Activities:			
Net earnings	($77)	$2,118	$2,190
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	1,078	1,158	1,234
(Gain) on sale of land	(11)	(134)	(37)
Amortization of premiums on debt securities	6	-	-
Unrealized change in equity securities	59	-	-
(Gain) loss on sale of securities	(94)	-	2
Deferred income taxes	(12)	83	32
Changes in operating assets and liabilities:			
Accounts receivable, net	4,948	(2,310)	1,666
Inventories	1,506	(1,334)	(154)
Prepaid expenses and other assets	(224)	(480)	396
Accounts payable	468	435	458
Accrued employee benefits	(60)	37	(721)
Accrued payroll and payroll taxes	(256)	83	(179)
Income tax receivable/payable	(573)	721	(798)
Other	(59)	18	20
Net cash provided by operating activities	**6,699**	**395**	**4,109**
Cash Flows from Investing Activities:			
Proceeds from sale of land	31	153	46
Purchase of land for investment	(4)	(44)	(180)
Capital expenditures	(526)	(396)	(1,217)
Proceeds from sale of securities	13,465	274	1,194
Purchase of securities	(10,077)	(11,389)	(3,025)
Net cash provided in investing activities	**2,889**	**(11,402)**	**(3,182)**
Cash Flows from Financing Activities:			
Purchase of common stock	(213)	(1,360)	(133)
Dividends paid	(1,215)	(2,439)	(1,246)
Net cash used in financing activities	**(1,428)**	**(3,799)**	**(1,379)**
Net Increase (Decrease) in Cash and Cash equivalents	8,160	(14,806)	(452)
Cash and Cash Equivalents at Beginning of Year	12,799	27,605	28,057
Cash and Cash Equivalents at End of Year	**$20,959**	**$12,799**	**$27,605**

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

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)		
	2020	**2019**	**2018**
Total Assets:			
Western/Work Boots	$ 26,377	$ 31,016	$ 27,833
Military Boots	10,092	12,666	11,286
Corporate/Other	41,460	35,672	41,245

	(In thousands)		
	2020	**2019**	**2018**
Total Net Revenues:			
Western/Work Boots	$ 46,498	$ 53,183	$ 53,479
Military Boots	22,652	28,680	20,180
Corporate/Other	161	291	233

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

The Company defines cash and cash equivalents as cash and short-term investments with original maturities of three months or less. The Company maintains cash balances with financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Although the Company maintains balances that exceed the federally insured limit, the Company has not experienced any losses related to this balance and the Company believes credit risk to be minimal.

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 $584,000 and $625,000 for fiscal 2020 and fiscal 2019, 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.

Investments

Effective August 4, 2019, we adopted Accounting Standards Update ("ASU") 2016-01 Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which requires us to measure all equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in earnings. Prior to the adoption of ASU 2016-01, marketable equity securities not accounted for under the equity method were classified as available-for-sale and recorded on the consolidated balance sheet within short-term and long-term securities. For equity securities classified as available-for-sale, realized gains and losses were included in net income. Unrealized gains and losses on equity securities classified as available-for-sale were recognized in accumulated other comprehensive income (loss) ("AOCI"), net of tax. Amounts previously included in short-term and long-term securities on the consolidated balance sheet have been reclassified to conform to current year's presentation and are now included within Equity investments with readily determinable fair values on the consolidated balance sheet.

Our investments in debt securities are carried at either amortized cost or fair value. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are carried at amortized cost and classified as held-to-maturity. Investments in debt securities that are not classified as held-to-maturity are carried at fair value and classified as either trading or available-for-sale. Realized and unrealized gains and losses on trading debt securities as well as realized gains and losses on available-for-sale debt securities are included in net income. Unrealized gains and losses, net of tax, on available-for-sale debt securities are included in our consolidated balance sheet as a component of AOCI, except for the change in fair value attributable to the currency risk being hedged, if applicable, which is included in net income. Refer to Note 4 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 August 1, 2020 and August 3, 2019, respectively.

Revenue Recognition

Revenue is recognized upon the transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. Where a formal contract does not exist, the Company determined that customer purchase orders primarily represent contracts. The Company's contracts generally include promises to sell boots. Customers also have the ability to receive shipments directly from the Company's vendors. Revenue associated with the sales of the Company's products are recognized at a point in time, which occurs when control of a good promised in a contract is transferred to a customer. Control is obtained when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good, which generally occurs either on shipment or delivery based on the contractual terms.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for the transfer of the promised products and services. The amount of consideration the Company expects to receive changes due to variable consideration is associated with allowances due to promotional programs, discounts, and rebates that we offer to customers. The amount of variable consideration which is included in the transaction price is only included in net sales to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur in a future period.

Costs of Goods Sold

Costs of goods sold consist of costs associated with procuring materials from suppliers. Sales discounts received from suppliers are recorded as a reduction of the cost of inventory.

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 or state income tax examinations for fiscal years ending before 2017. 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 August 1, 2020.

Advertising

The Company charges advertising costs when incurred as a component of selling, general and administrative expenses. Advertising expense amounted to approximately $1,097,000, $1,090,000, and $1,018,000 for fiscal years 2020, 2019, and 2018, respectively.

Shipping and Handling

The Company incurs shipping and handling costs when delivering products to customers. All amounts billed to a customer in a sales transaction related to shipping and handling are recognized as revenue for the goods provided. Shipping and handling costs are classified as part of operating expenses in the accompanying consolidated statement 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.

COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continued to spread throughout the United States. The spread of COVID-19 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Company is unable to determine if it will have a material impact to its operations.

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief and Economics Security Act (CARES Act). The CARES Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States economy and fund a nationwide effort to curtail the effects of COVID-19. As the CARES Act provides sweeping tax changes in response to the COVID-19 pandemic, the Company is unable to quantify the impact, if any, that the CARES Act will have on their operations.

Recent Accounting Pronouncements

The Company has considered all new accounting pronouncements issued by the FASB and concluded the following accounting pronouncements may have a material impact on its consolidated financial statements or represent accounting pronouncements for which the Company has not yet completed its assessment.

In January 2016, the FASB issued ASU 2016-01, which addresses certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 was effective for the Company beginning August 4, 2019, and we are now recognizing any changes in the fair value of certain equity investments in net income as prescribed by the new standard rather than in other comprehensive income ("OCI"). The cumulative effect adjustment to the opening balance of retained earnings as a result of this adoption was not material to the financial statements. We adopted this standard on a prospective basis and prior year amounts have not been reclassified. Refer to Note 4 for additional disclosures required by this ASU.

On August 4, 2019, the Company adopted ASU 2014-09, Revenue from Contracts with Customers using the modified retrospective method for those contracts that were not completed as of August 4, 2019. Results for reporting periods beginning after August 4, 2019 are presented under the auspices of ASU 2014-09 while prior period amounts were not adjusted and continue to be reported under the previous guidance outlined under ASC 605, Revenue Recognition. The new accounting standard did not have a material effect on the Company's financial statements.

2. INVENTORIES

Current costs exceeded the LIFO value of inventories by approximately $739,000 and $546,000 at August 1, 2020 and August 3, 2019, respectively. Year-end inventories valued under the LIFO method were approximately $5,178,000 and $5,951,000 at August 1, 2020 and August 3, 2019, respectively. For fiscal 2020, higher FIFO pricing resulted in an increased LIFO reserve, which decreased net earnings by approximately $148,000, as compared to lower FIFO pricing for fiscal 2019 resulting in a decreased LIFO reserve, which increased net earnings by approximately $156,000.

Inventory reserves applicable to the FIFO inventories totaled approximately $700,000 and $335,000 for fiscal 2020 and fiscal 2019, respectively.

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

	(In thousands)	
	2020	2019
Raw materials	$ 2,526	$ 2,889
Work-in-process	825	1,333
Finished goods	14,904	15,539
	$ 18,255	$ 19,761

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 August 1, 2020 and August 3, 2019 consisted of the following:

	(In thousands)	
	2020	2019
Land and improvements	$ 612	$ 612
Buildings	7,217	7,135
Machinery and equipment	7,814	7,611
Furniture and fixtures	5,445	5,399
	21,088	20,757
Less: Accumulated depreciation	(15,028)	(14,145)
	$ 6,060	$ 6,612

Depreciation expense for fiscal years ended 2020, 2019, and 2018 was approximately $1,078,000, $1,158,000, and $1,234,000, respectively.

4. INVESTMENTS

Effective August 4, 2019 we adopted ASU 2016-01, which requires us to measure all equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in earnings. We use quoted market prices to determine the fair value of equity securities with readily determinable fair values. Prior to the adoption of ASU 2016-01, marketable equity securities not accounted for under the equity method were classified as available-for-sale. Equity securities with readily determinable fair values are not assessed for impairment, since they are carried at fair value with the change included in net income. For debt securities classified as available-for-sale, realized gains and losses were included in net income. Unrealized gains and losses on debt securities classified as available-for-sale were recognized in AOCI, net of tax.

As of August 1, 2020, the carrying values of our equity securities were included in the following line items in our consolidated balance sheet (in thousands):

	Fair Value with Changes Recognized in Income
Equity securities with readily determinable fair values	$ 4,131
Cash and cash equivalents	12,904
Total equity investments	$ 17,035

The calculation of net unrealized gains and losses recognized during the year related to equity securities still held at August 1, 2020 is as follows (in thousands):

	2020
Net gains (losses) recognized during the year related to equity securities	$ (83)
Less: Net gains (losses) recognized during the year related to equity securities sold during the year	(24)
Net unrealized gains (losses) recognized during the year related to equity securities still held at the end of the year	$ (59)

Our debt securities consisted of the following (in thousands):

	2020	**2019**
Available-for-sale securities	$ 9,750	$ 13,209
Total debt securities	$ 9,750	$ 13,209

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 August 1, 2020 and August 3, 2019. 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 2021 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 August 1, 2020 and August 3, 2019. The line of credit expires in January 2021 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 2020, 2019 or 2018.

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 $202,000, $276,000, and $266,000, for the fiscal years ended 2020, 2019, and 2018, respectively.

Employee benefit program expense, which includes 401-K, amounted to approximately $546,000, $689,000, and $679,000, for the fiscal years ended 2020, 2019 and 2018, respectively.

7. INCOME TAXES

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

	2020	2019	2018
Current expense			
Federal	$ 118	$ 695	$ 383
State	49	59	110
	167	754	493
Deferred expense			
Federal	(11)	68	33
State	(1)	9	5
	$ 155	$ 831	$ 531

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

	2020	2019	2018
Depreciation	$ (126)	$ (12)	$ (266)
Accrued employee benefits	13	(8)	313
Allowances for doubtful accounts	54	76	54
Allowance for sales returns	9	(28)	89
Inventory	(65)	(18)	230
State net operating loss carry forward	-	(2)	5
Economic Price Adjustment Claim	-	42	22
Amortization	23	28	(283)
Prepaid Expenses	94	-	(53)
Self Insurance Reserve	-	-	57
Like Kind Exchange	-	-	(130)
Other	(14)	(1)	-
Provision for deferred income taxes	$ (12)	$ 77	$ 38

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

	2020	2019
Amortization	$ (653)	$ (630)
Gain on Like Kind Exchange	(240)	(240)
Depreciation	(709)	(835)
Prepaid Expenses	(94)	-
Noncurrent deferred tax liabilities	(1,696)	(1,705)
State net operating loss carry forward	102	102
Self Insurance	105	105
Accrued employee benefits	94	107
Allowances for doubtful accounts	37	91
Allowance for sales returns	137	146
Inventory	511	446
Economic Price Adjustment Claim	-	-
Unrealized (Gain)/Loss	17	4
Other	1	-
Noncurrent deferred tax assets	1,004	1,001
Net noncurrent deferred tax liabilities	$ (692)	$ (704)

State net operating loss carry forwards of $4.0 million will begin to expire in fiscal 2024.

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

	2020		2019		2018	
	Amount	Percent	Amount	Percent	Amount	Percent
Tax at U.S. statutory rate	$ 16	21.0 %	$ 619	21.0 %	$ 722	26.5 %
State income taxes, net of federal tax benefit	32	41.0 %	45	1.5 %	76	2.8 %
Tax adjustments	143	183.3 %	141	4.8 %	160	5.9 %
Impact of tax reform	-		-		(390)	(14.3) %
Other – net	(36)	(46.1) %	26	0.9 %	(37)	(1.4) %
	$ 155	198.7 %	$ 831	28.2 %	$ 531	19.5 %

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

On December 22, 2017, the United States enacted tax reform legislation commonly known as the H.R.1, ("the Act"), resulting in significant modifications to existing law. The legislation reduced the U.S. corporate income tax rate from 35% to 21%. The Company completed the accounting for the effects of the Act during the year ending August 3, 2019. As a result, our financial statements for the year ended July 28, 2018, include a one-time tax benefit of $390. This impact was primarily due to the remeasurement of deferred tax assets and liabilities from 35% to 21% totaling $390.

Total income tax payments during fiscal years 2020, 2019, and 2018 were approximately $870,000, $165,000, and $1,410,000, respectively.

The Company follows the applicable authoritative guidance related to accounting for uncertainty in income tax reporting. As of August 1, 2020, 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 $611,000, $660,000, and $664,000, for fiscal years ended 2020, 2019, and 2018, respectively. The future non-cancelable lease payments as of August 1, 2020 are as follows:

	2021	2022	2023	2024	2025
Lease Payments	$596,000	$616,000	$619,000	$621,000	$592,000

The Company leases approximately 37,000 square feet of office and warehouse space to Toshiba Business Solutions, Inc. The original lease and subsequent amendments cover a base year period and additional periods through August 31, 2022. 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:

	2021	2022
Lease Payments	$53,315	$54,381
Facility Charges	$63,868	$65,145

Concentrations

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 August 1, 2020 and August 3, 2019, twenty-one customers accounted for 66% and 82% 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 $2.5 million and $3.1 million at August 1, 2020 and August 3, 2019 respectively.

Sales to the U.S. Government amounted to 24%, 28%, and 24%, of total consolidated net revenues for fiscal years ended 2020, 2019, and 2018, 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 August 1, 2020, 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 equity and debt investments 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 August 1, 2020 (in thousands):

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Equity Investments	$ 17,035	–	–	$ 17,035
Debt Securities	$ 9,750	–	–	$ 9,750

The following table presents those assets and liabilities that are measured at fair value as of August 3, 2019 (in thousands):

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Equity Investments	$ 4,032	–	–	$ 4,032
Debt Securities	$ 13,209	–	–	$ 13,209

Refer to Note 4 for additional information related to the composition of our equity and debt securities. 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 2, 2020, the Company declared a cash dividend of $.13 per share on its Class A and Class B Common Stock payable on September 30, 2020 to shareholders of record on September 16, 2020.

Subsequent events have been evaluated through October 28, 2020, which is the date the financial statements were available to be issued.

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 info@mcraeindustries.com.

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
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Brooklyn, NY 11219

Annual Meeting

Thursday, December 17, 2020
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Independent Auditors

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Suite 2500
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General Counsel

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