McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE FIRST QUARTER
OF FISCAL 2011

Mount Gilead, N.C. – December 15, 2010. McRae Industries, Inc. (Pink Sheets: MRINA and MRINB) reported consolidated net revenues for the first quarter of fiscal 2011 of $19,740,000 as compared to $17,041,000 for the first quarter of fiscal 2010. Net earnings for the first quarter of fiscal 2011 amounted to $1,281,000, or $.59 per diluted Class A common share as compared to net earnings of $1,037,000, or $.49 per diluted Class A common share, for the first quarter of fiscal 2010.

FIRST QUARTER FISCAL 2011 COMPARED TO FIRST QUARTER FISCAL 2010

Consolidated net revenues totaled $19.7 million for the first quarter of fiscal 2011 as compared to $17.0 million for the first quarter of fiscal 2010. The growth in net revenues resulted from increased sales in both of our boot product segments. Our western/lifestyle boot products grew from $11.5 million for the first quarter of fiscal 2010 to $12.5 million for the first quarter of fiscal 2011 as demand for these products remained strong. In addition, revenues related to our work boot products increased from $5.3 million for the first quarter of fiscal 2010 to $7.1 million for the first quarter of fiscal 2011. This improvement in net revenues was primarily attributable to increased military boot requirements for the U. S. Government and to a slight uptick in demand for our John Deere work boot products.

Consolidated gross profit for the first quarter of fiscal 2011 amounted to $6.2 million as compared to $5.4 million for the first quarter of fiscal 2010. The growth in gross profit was primarily attributable to the increase in net revenues. In addition, lower per unit manufacturing costs related to increased military boot production levels had a positive impact on gross margin for the current reporting period.

Consolidated selling, general and administrative (“SG&A”) expenses were approximately $4.1 million for the first quarter of fiscal 2011 as compared to $3.7 million for the first quarter of fiscal 2010 The increase in SG&A expenses resulted primarily from increased expenditures for sales salaries and commissions, travel expenses, sales and marketing costs, administrative salaries and employee benefit related charges.

As a result of the above, the consolidated operating profit for the first quarter of fiscal 2011 amounted to $2.1 million as compared to $1.7 million for the first quarter of fiscal 2010.

Financial Condition and Liquidity

Our financial condition remained strong at October 30, 2010 as cash and cash equivalents totaled $6.7 million as compared to $9.9 million at July 31, 2010. Our working capital amounted to $33.8 million at October 30, 2010 as compared to $33.9 million at July 31, 2010.

We currently have two lines of credit with a bank totaling $4.75 million, all of which was fully available at October 30, 2010. 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 2011. The $3.0 million line of credit, which expires in November 2011, 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 the remainder of fiscal 2011.

Net cash used by operating activities for the first quarter of fiscal 2010 amounted to $2.8 million. Net earnings, as adjusted for depreciation, contributed approximately $1.4 million of cash. Accounts and notes receivable used approximately $3.4 million of cash as strong first quarter sales, primarily attributable to the western and work boot business, outpaced customer payments. Planned increased inventory levels in our western/ work boot business coupled with higher military boot inventories used approximately $1.0 million of cash. The reduction in accounts payable used $536,000 of cash primarily for the payment of inventory purchases. The timing of employee benefit payments provided approximately $319,000 of cash. The payment of accrued sales commissions used approximately $403,000 of cash. Income tax payments provided approximately $849,000 of cash.

Net cash used by investing activities totaled approximately $217,000. Capital expenditures used $48,000 of cash primarily for manufacturing, office and computer equipment. Land improvements used $171,000 of cash.

Net cash used in financing activities totaled $185,000, which was used for 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
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

	October 30, 2010	July 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 6,745	$ 9,948
Accounts and notes receivable, net	13,908	10,471
Inventories, net	18,168	17,175
Income tax receivable	210	1,059
Prepaid expenses and other current assets	259	165
Total current assets	39,290	38,818
Property and equipment, net	2,744	2,849
Other assets:		
Real estate held for investment	3,606	3,435
Amount due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Total other assets	8,718	8,547
Total assets	$50,752	$50,214

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

	October 30, 2010	July 31, 2010
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 3,040	$ 3,576
Accrued employee benefits	993	674
Accrued payroll and payroll taxes	708	1,111
Other accrued liabilities	761	699
Total current liabilities	5,502	6,060
Shareholders' equity:		
Common Stock:		
Class A, $1 par; Authorized 5,000,000 shares; Issued and outstanding, 2,058,100 shares and 2,054,282 shares, respectively	2,058	2,054
Class B, $1 par; Authorized 2,500,000 shares; Issued and outstanding, 425,161 shares and 428,979 shares, respectively	425	429
Retained earnings	42,767	41,671
Total shareholders' equity	45,250	44,154
Total liabilities and shareholders' equity	$50,752	$50,214

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

	Three Months Ended	
	October 30, 2010	**October 31, 2009**
Net revenues	$19,740	$17,041
Cost of revenues	13,584	11,645
Gross profit	6,156	5,396
Costs and expenses:		
Selling, general and administrative expenses	4,062	3,703
Other expense (income), net	(36)	(45)
Interest expense	0	19
Total costs and expenses	4,026	3,677
Earnings before income taxes	2,130	1,719
Provision for income taxes	849	682
Net earnings	$1,281	$1,037
Earnings per common share:		
Basic earnings per share:		
Class A	$.71	$.59
Class B	0	0
Diluted earnings per share:		
Class A	.59	.49
Class B	NA	NA
Weighted average number of common shares outstanding:		
Class A	2,055,690	2,083,963
Class B	427,571	436,275
Total	2,483,261	2,520,238

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

	Three Months Ended	
	October 30, 2010	**October 31, 2009**
Net cash used in by operating activities	$ (2,801)	$ (554)
Cash flows from investing activities:		
Proceeds from sales of assets	2	0
Land improvements	(171)	(13)
Capital expenditures	(48)	(62)
Net cash used in by investing activities	(217)	(75)
Cash flows from financing activities:		
Principal payments on long-term debt	0	(45)
Dividends paid	(185)	(187)
Net cash used in financing activities	(185)	(232)
Net decrease in cash and cash equivalents	(3,203)	(861)
Cash and cash equivalents at beginning of period	9,948	11,310
Cash and cash equivalents at end of period	$ 6,745	$ 10,449