

McRAE INDUSTRIES, INC.

REPORTS EARNINGS FOR THE FIRST QUARTER OF FISCAL 2014

Mount Gilead, N.C. – December 16, 2013. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues for the first quarter of fiscal 2014 of \$31,653,000 as compared to \$24,864,000 for the first quarter of fiscal 2013. Net earnings for the first quarter of fiscal 2014 amounted to \$3,045,000, or \$1.33 per diluted Class A common share as compared to net earnings of \$1,943,000, or \$0.87 per diluted Class A common share, for the first quarter of fiscal 2013.

FIRST QUARTER FISCAL 2014 COMPARED TO FIRST QUARTER FISCAL 2013

Consolidated net revenues totaled \$31.7 million for the first quarter of fiscal 2014 as compared to \$24.9 million for the first quarter of fiscal 2013. Sales related to our western/lifestyle boot products for the first quarter of fiscal 2014 totaled \$22.3 million as compared to \$18.5 million for the first quarter of fiscal 2013. This 21% increase net revenues was primarily attributable to continued strong demand for our men and women's branded products. Revenues from our work boot products grew approximately 48%, from \$6.3 million for the first quarter of fiscal 2013 to \$9.3 million for the first quarter of fiscal 2014 as the production of military boots related to our multiple contracts increased significantly. Revenues associated with our smaller businesses were minimal. We are cautiously optimistic that the improving economy, coupled with our multiple military boot contracts, will have a positive impact on net revenues for the second quarter.

Consolidated gross profit for the first quarter of fiscal 2014 amounted to approximately \$10.3 million as compared to \$7.9 million for the first quarter of fiscal 2013. This increase in gross profit was attributable to both the increase in net revenues and a slight uptick in overall profit margins. Gross profit as a percentage of net revenues inched up from 31.7% for the first quarter of fiscal 2013 to 32.4% for the first quarter of fiscal 2014, primarily attributable to the positive impact that increased production levels associated with the military boot business have on lowering per unit product costs.

Consolidated selling, general and administrative ("SG&A") expenses totaled approximately \$5.5 million for the first quarter of fiscal 2014 as compared to \$4.8 million for the first quarter of fiscal 2013. This increase in SG&A expenses resulted primarily from increased expenditures for sales related compensation, travel expenses, professional service costs, product promotion costs, and employee benefit costs, which were partially offset by reduced health insurance charges. As a percentage of net revenues, SG&A expenses fell from 19.3 % for the first quarter of fiscal 2013 to 17.4% for the first quarter of fiscal 2014.

As a result of the above, the consolidated operating profit for the first quarter of fiscal 2014 amounted to \$4.8 million as compared to \$3.1 million for the first quarter of fiscal 2013.

Financial Condition and Liquidity

Our financial condition remained strong at November 2, 2013 as cash and cash equivalents totaled \$10.7 million as compared to \$10.8 million at August 3, 2013. Our working capital increased from \$43.1 million at August 3, 2013 to \$45.9 million at November 2, 2013.

We currently have two lines of credit with a bank totaling \$6.75 million, all of which was fully available at November 2, 2013. 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 2014. Our \$5.0 million line of credit, which also expires in January 2014, 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 2014.

Net cash provided by operating activities for the first quarter of fiscal 2014 amounted to \$321,000. Net earnings, as adjusted for depreciation, contributed approximately \$3.2 million of cash. Accounts and notes receivable used approximately \$3.9 million of cash as strong first quarter sales, primarily attributable to the western and work boot business, outpaced customer payments. Inventory levels in both of our boot businesses used approximately \$634,000 of cash as product demand remained strong. The timing of payments for inventory purchases used approximately \$349,000 of cash. The payment of accrued sales commissions used approximately \$381,000 of cash. The timing of employee benefit and income tax payments provided approximately \$2.2 million of cash.

Net cash used by investing activities totaled approximately \$188,000, primarily for manufacturing equipment, computer equipment and software upgrades.

Net cash used in financing activities totaled \$219,000, which was used for dividend payments.

RECLASSIFICATION

Certain amounts in the 2013 financial statements have been reclassified to the 2014 presentation.

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. Readers are cautioned not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. Except as otherwise required by the federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations or any change in events, conditions or circumstances on which any such statement is based.

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

	<u>November 2, 2013</u>	<u>August 3, 2013</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,718	\$ 10,804
Marketable securities	0	0
Accounts and notes receivable, net	19,350	5,394
Inventories, net	23,680	23,046
Income tax receivable	0	695
Prepaid expenses and other current assets	271	482
Total current assets	<u>54,019</u>	<u>50,421</u>
 Property and equipment, net	 <u>3,330</u>	 <u>3,319</u>
 Other assets:		
Marketable securities- long term	955	958
Real estate held for investment	3,626	3,626
Amount due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Total other assets	<u>9,693</u>	<u>9,696</u>
Total assets	<u>\$ 67,042</u>	<u>\$ 63,436</u>

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

	<u>November 2, 2013</u>	<u>August 3, 2013</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,705	\$ 4,054
Accrued employee benefits	2,498	1,707
Accrued payroll and payroll taxes	828	1,209
Accrued income tax	666	0
Other accrued liabilities	453	399
Total current liabilities	8,150	7,369
Shareholders' equity:		
Common Stock:		
Class A, \$1 par; Authorized 5,000,000 shares; Issued and outstanding, 2,038,543 shares and 2,037,605 shares, respectively	2,039	2,038
Class B, \$1 par; Authorized 2,500,000 shares; Issued and outstanding, 391,981 shares and 392,919 shares, respectively	392	393
Retained earnings	56,461	53,636
Total shareholders' equity	58,892	56,067
Total liabilities and shareholders' equity	\$67,042	\$63,436

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

	Three Months Ended	
	November 2, 2013	October 27, 2012
Net revenues	\$31,653	\$24,864
Cost of revenues	21,352	16,954
Gross profit	10,301	7,910
Costs and expenses:		
Selling, general and administrative expenses	5,470	4,790
Other expense (income), net	(77)	(38)
Interest expense	0	0
Total costs and expenses	5,393	4,752
Earnings before income taxes	4,908	3,158
Provision for income taxes	1,863	1,215
Net earnings	\$3,045	\$1,943
Earnings per common share:		
Basic earnings per share:		
Class A	\$1.58	\$1.05
Class B	.09	0
Diluted earnings per share:		
Class A	1.33	.87
Class B	NA	NA
Weighted average number of common shares outstanding:		
Class A	2,038,247	2,030,961
Class B	392,277	407,460
Total	2,430,524	2,438,421

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

	Three Months Ended	November 2,	October 27,
	2013	2012	2012
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) operating activities	\$ 321	\$ (2,412)	
Cash flows from investing activities:			
Proceeds from sales of assets	0	4	
Purchase of securities	0	(1,045)	
Capital expenditures	<u>(188)</u>	<u>(142)</u>	
Net cash used in by investing activities	<u>(188)</u>	<u>(1,183)</u>	
Cash flows from financing activities:			
Purchase of company stock	0	(14)	
Dividends paid	<u>(219)</u>	<u>(183)</u>	
Net cash used in financing activities	<u>(219)</u>	<u>(197)</u>	
Net decrease in cash and cash equivalents	(86)	(3,792)	
Cash and cash equivalents at beginning of period	<u>10,804</u>	<u>12,874</u>	
Cash and cash equivalents at end of period	<u>\$ 10,718</u>	<u>\$ 9,082</u>	