

McRAE INDUSTRIES, INC.

REPORTS EARNINGS FOR THE FIRST QUARTER OF FISCAL 2015

Mount Gilead, N.C. – December 15, 2014. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues for the first quarter of fiscal 2015 of \$29,239,000 as compared to \$31,653,000 for the first quarter of fiscal 2014. Net earnings for the first quarter of fiscal 2015 amounted to \$2,347,000, or \$1.07 per diluted Class A common share as compared to net earnings of \$3,045,000, or \$1.33 per diluted Class A common share, for the first quarter of fiscal 2014.

FIRST QUARTER FISCAL 2015 COMPARED TO FIRST QUARTER FISCAL 2014

Consolidated net revenues totaled \$29.2 million for the first quarter of fiscal 2015 as compared to \$31.7 million for the first quarter of fiscal 2014. Sales related to our western/lifestyle boot products for the first quarter of fiscal 2015 totaled \$19.4 million as compared to \$22.3 million for the first quarter of fiscal 2014. This 13% decrease in net revenues was primarily attributable to merchants overstocking their inventory levels in the prior year in anticipation of heavier seasonal demand for these products, which did not materialize as the women fashion consumers become more price conscious. Overall, demand for these products continues to be good. Revenues from our work boot products grew approximately 6%, from \$9.3 million for the first quarter of fiscal 2014 to \$9.8 million for the first quarter of fiscal 2015 as the production of military boots related to our multiple government contracts continues to increase. Revenues associated with our smaller businesses were minimal. We are cautiously optimistic that the growing 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 2015 amounted to approximately \$8.9 million as compared to \$10.3 million for the first quarter of fiscal 2014. This decrease in gross profit was attributable to both the decrease in net revenues and a slight decline in overall profit margins. Gross profit as a percentage of net revenues was down from 32.5% for the first quarter of fiscal 2014 to 30.3% for the first quarter of fiscal 2015, primarily attributable to a sales mix weighted more heavily towards lower margin work boot products.

Consolidated selling, general and administrative (“SG&A”) expenses totaled approximately \$5.1 million for the first quarter of fiscal 2015 as compared to \$5.5 million for the first quarter of fiscal 2014. This decrease in SG&A expenses resulted primarily from decreased expenditures for sales related compensation, advertising, and employee benefit costs. As a percentage of net revenues, SG&A expenses remained constant at 17.3% for the first quarter of fiscal 2014 and 2015.

As a result of the above, the consolidated operating profit for the first quarter of fiscal 2015 amounted to \$3.8 million as compared to \$4.8 million for the first quarter of fiscal 2014.

Financial Condition and Liquidity

Our financial condition remained strong at November 1, 2014 as cash and cash equivalents totaled \$15.8 million as compared to \$18.9 million at August 2, 2014. Our working capital increased from \$51.2 million at August 2, 2014 to \$51.7 million at November 1, 2014.

We currently have two lines of credit with a bank totaling \$6.75 million, all of which was fully available at November 1, 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. Our \$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 the remainder of fiscal 2015.

Net cash used by operating activities for the first quarter of fiscal 2015 amounted to \$2,637,000. Net earnings, as adjusted for depreciation, contributed approximately \$2.5 million of cash. Accounts and notes receivable used approximately \$4.6 million of cash as first quarter sales outpaced customer payments. Inventory levels in both of our boot businesses used approximately \$2.5 million of cash as product demand remained strong. The timing of payments for accounts payable, employee benefits, and income taxes provided approximately \$2.0 million of cash.

Net cash used by investing activities totaled approximately \$125,000, primarily for manufacturing equipment, computer equipment and software upgrades.

Net cash used in financing activities totaled \$316,000, 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. 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
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	<u>November 1, 2014</u>	<u>August 2, 2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$15,802	\$18,880
Short term securities	76	76
Accounts and notes receivable, net	18,061	13,428
Inventories, net	24,838	22,288
Income tax receivable	118	1,620
Prepaid expenses and other current assets	558	553
Total current assets	<u>59,453</u>	<u>56,845</u>
Property and equipment, net	<u>3,159</u>	<u>3,222</u>
Other assets:		
Deposits	14	14
Long term securities	870	872
Real estate held for investment	3,587	3,585
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Total other assets	<u>9,583</u>	<u>9,583</u>
Total assets	<u><u>\$72,195</u></u>	<u><u>\$69,650</u></u>

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

	<u>November 1, 2014</u>	<u>August 2, 2014</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$3,775	\$3,778
Accrued employee benefits	2,422	1,798
Accrued payroll and payroll taxes	1,004	1,161
Other	514	463
Total current liabilities	<u>7,715</u>	<u>7,200</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,038,543 and 2,038,543 shares, respectively	2,039	2,039
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 391,981 and 391,981 shares, respectively	392	392
Retained earnings	<u>62,049</u>	<u>60,019</u>
Total shareholders' equity	<u>64,480</u>	<u>62,450</u>
Total liabilities and shareholders' equity	<u><u>\$72,195</u></u>	<u><u>\$69,650</u></u>

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

	Three Months Ended	
	November 1, 2014	November 2, 2013
	<u> </u>	<u> </u>
Net revenues	\$29,239	\$31,653
Cost of revenues	<u>20,375</u>	<u>21,352</u>
Gross profit	8,864	10,301
Selling, general and administrative expenses	<u>5,058</u>	<u>5,470</u>
Operating profit	3,806	4,831
Other income	<u>55</u>	<u>77</u>
Earnings before income taxes	3,861	4,908
Provision for income taxes	<u>1,514</u>	<u>1,863</u>
Net earnings	<u><u>\$2,347</u></u>	<u><u>\$3,045</u></u>
Earnings per common share:		
Earnings per common share:		
Basic earnings per share:		
Class A	\$1.28	\$1.58
Class B	0.13	0.09
Diluted earnings per share:		
Class A	1.07	1.33
Class B	NA	NA
Weighted average number of common shares outstanding:		
Class A	2,038,543	2,038,247
Class B	<u>391,981</u>	<u>392,277</u>
Total	<u><u>2,430,524</u></u>	<u><u>2,430,524</u></u>

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

	Three Months Ended	
	November 1, 2014	November 2, 2013
	<u> </u>	<u> </u>
Net cash provided by operating activities	(2,637)	321
Cash Flows from Investing Activities:		
Purchase of land for investment	(2)	-
Capital expenditures	<u>(123)</u>	<u>(188)</u>
Net cash used in investing activities	<u>(125)</u>	<u>(188)</u>
Cash Flows from Financing Activities:		
Dividends paid	<u>(316)</u>	<u>(219)</u>
Net cash used in financing activities	<u>(316)</u>	<u>(219)</u>
Net (Decrease) Increase in Cash and Cash equivalents	(3,078)	(86)
Cash and Cash Equivalents at Beginning of Year	<u>18,880</u>	<u>10,804</u>
Cash and Cash Equivalents at End of Year	<u><u>\$15,802</u></u>	<u><u>\$10,718</u></u>