

McRAE INDUSTRIES, INC.

REPORTS EARNINGS FOR THE FIRST QUARTER OF FISCAL 2013

Mount Gilead, N.C. – January 8, 2013. McRae Industries, Inc. (Pink Sheets: MRINA and MRINB) reported consolidated net revenues for the first quarter of fiscal 2013 of \$24,864,000 as compared to \$20,195,000 for the first quarter of fiscal 2012. Net earnings for the first quarter of fiscal 2013 amounted to \$1,943,000, or \$0.87 per diluted Class A common share as compared to net earnings of \$1,379,000, or \$0.63 per diluted Class A common share, for the first quarter of fiscal 2012.

FIRST QUARTER FISCAL 2013 COMPARED TO FIRST QUARTER FISCAL 2012

Consolidated net revenues totaled \$24.9 million for the first quarter of fiscal 2013 as compared to \$20.2 million for the first quarter of fiscal 2012. Sales related to our western/lifestyle boot products for the first quarter of fiscal 2013 totaled \$18.5 million as compared to \$14.1 million for the first quarter of fiscal 2012 as demand for these products remained strong. Revenues from our work boot products grew approximately 3%, from \$6.1 million for the first quarter of fiscal 2012 to \$6.3 million for the first quarter of fiscal 2013. The increased demand for these footwear products resulted primarily from an improved economy and the commencement of two military boot contracts with the U. S. Government.

Consolidated gross profit for the first quarter of fiscal 2013 amounted to approximately \$7.9 million as compared to \$6.4 million for the first quarter of fiscal 2012. The growth in gross profit was primarily attributable to the increase in net revenues. Gross profit as a percentage of net revenues inched up from 31.5% for the first quarter of fiscal 2012 to 31.7% for the first quarter of fiscal 2013 as product pricing continued to stay ahead of rising product costs.

Consolidated selling, general and administrative (“SG&A”) expenses totaled approximately \$4.8 million for the first quarter of fiscal 2013 as compared to \$4.2 million for the first quarter of fiscal 2012. This increase in SG&A expenses resulted primarily from increased expenditures for sales related compensation, travel expenses, administrative salaries, health insurance costs and employee benefit costs, which were partially offset by reduced expenditures for office rentals, sales promotional costs, and professional fees.

As a result of the above, the consolidated operating profit for the first quarter of fiscal 2013 amounted to \$3.1 million as compared to \$2.2 million for the first quarter of fiscal 2012.

Financial Condition and Liquidity

Our financial condition remained strong at October 27, 2012. Cash and cash equivalents totaled \$9.1 million as compared to \$12.9 million at July 28, 2012. Our working capital amounted to \$39.7 million at October 27, 2012 as compared to \$38.9 million at July 28, 2012.

We currently have two lines of credit with a bank totaling \$6.75 million, all of which was fully available at October 27, 2012. 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. The \$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 2013.

Net cash used by operating activities for the first quarter of fiscal 2013 amounted to \$2.4 million. Net earnings, as adjusted for depreciation, contributed approximately \$2.1 million of cash. Accounts and notes receivable used approximately \$5.5 million of cash as strong first quarter sales, primarily attributable to the western and work boot business, outpaced customer payments. Increased inventory levels primarily associated with material purchases to support our two new Government contracts used approximately \$1.2 million of cash. The timing of payments for inventory purchases and employee benefits provided approximately \$1.3 million of cash. The payment of accrued sales commissions used approximately \$280,000 of cash. The timing of income tax payments provided approximately \$1.1 million of cash.

Net cash used by investing activities totaled approximately \$1.2 million. Investment in "held to maturity securities" used approximately \$1.05 million while capital expenditures, primarily for manufacturing, office, phone and computer equipment, used approximately \$142,000.

Net cash used in financing activities totaled \$197,000, which was used for dividend payments and to repurchase Company stock.

RECLASSIFICATION

Certain amounts in the 2012 financial statements have been reclassified to the 2013 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.

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

	<u>October 27, 2012</u>	<u>July 28, 2012</u>
Assets		
Current assets:		
Cash and cash equivalents	\$9,082	\$ 12,874
Marketable securities	78	0
Accounts and notes receivable, net	17,276	11,782
Inventories, net	20,753	19,572
Income tax receivable	0	537
Prepaid expenses and other current assets	343	395
Total current assets	<u>47,532</u>	<u>45,160</u>
Property and equipment, net	<u>3,102</u>	<u>3,116</u>
Other assets:		
Marketable securities- long term	967	0
Real estate held for investment	3,673	3,673
Amount due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Total other assets	<u>9,752</u>	<u>8,785</u>
Total assets	<u>\$60,386</u>	<u>\$57,061</u>

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

	<u>October 27, 2012</u>	<u>July 28, 2012</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,165	\$ 3,373
Accrued employee benefits	1,649	1,158
Accrued payroll and payroll taxes	723	1,003
Accrued income tax	496	0
Other accrued liabilities	<u>826</u>	<u>746</u>
Total current liabilities	<u>7,859</u>	<u>6,280</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par; Authorized 5,000,000 shares; Issued and outstanding, 2,033,144 shares and 2,030,880 shares, respectively	2,033	2,031
Class B, \$1 par; Authorized 2,500,000 shares; Issued and outstanding, 405,112 shares and 408,376 shares, respectively	405	408
Retained earnings	<u>50,089</u>	<u>48,342</u>
Total shareholders' equity	<u>52,527</u>	<u>50,781</u>
Total liabilities and shareholders' equity	<u>\$60,386</u>	<u>\$57,061</u>

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

	Three Months Ended	
	October 27, 2012	October 29, 2011
Net revenues	\$24,864	\$20,195
Cost of revenues	16,954	13,799
Gross profit	7,910	6,396
Costs and expenses:		
Selling, general and administrative expenses	4,790	4,178
Other expense (income), net	(38)	(43)
Interest expense	0	0
Total costs and expenses	4,752	4,135
Earnings before income taxes	3,158	2,261
Provision for income taxes	1,215	882
Net earnings	\$1,943	\$1,379
Earnings per common share:		
Basic earnings per share:		
Class A	\$1.05	\$.76
Class B	0	0
Diluted earnings per share:		
Class A	.87	.63
Class B	NA	NA
Weighted average number of common shares outstanding:		
Class A	2,030,961	2,047,460
Class B	407,460	419,470
Total	2,438,421	2,466,930

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

	Three Months Ended	
	October 27, 2012	October 29, 2011
	<u> </u>	<u> </u>
Net cash used in by operating activities	\$ (2,412)	\$ (1,324)
Cash flows from investing activities:		
Proceeds from sales of assets	4	1
Purchase of securities	(1,045)	0
Capital expenditures	<u>(142)</u>	<u>(61)</u>
Net cash used in by investing activities	<u>(1,183)</u>	<u>(60)</u>
Cash flows from financing activities:		
Purchase of company stock	(14)	0
Dividends paid	<u>(183)</u>	<u>(184)</u>
Net cash used in financing activities	<u>(197)</u>	<u>(184)</u>
Net decrease in cash and cash equivalents	(3,792)	(1,568)
Cash and cash equivalents at beginning of period	<u>12,874</u>	<u>10,274</u>
Cash and cash equivalents at end of period	<u>\$ 9,082</u>	<u>\$ 8,706</u>