

McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE SECOND QUARTER AND
FIRST SIX MONTHS OF FISCAL 2015

Mount Gilead, N.C. – March 20, 2015. McRae Industries, Inc. (Pink Sheets MCRAA and MCRAB) reported consolidated net revenues for the second quarter of fiscal 2015 of \$28,067,000 as compared to \$26,604,000 for the second quarter of fiscal 2014. Net earnings for the second quarter of fiscal 2014 amounted to \$1,457,000 or \$0.71 per diluted Class A common share as compared to net earnings of \$1,501,000, or \$0.73 per diluted Class A common share, for the second quarter of fiscal 2014.

Consolidated net revenues for the first six months of fiscal 2015 totaled \$57,306,000 as compared to \$58,257,000 for the first six months of fiscal 2014. Net earnings for the first six months of fiscal 2015 amounted to \$3,804,000, or \$1.78 per diluted Class A common share, as compared to net earnings of \$4,546,000, or \$2.06 per diluted Class A common share, for the first six months of fiscal 2014.

SECOND QUARTER FISCAL 2015 COMPARED TO SECOND QUARTER FISCAL 2014

Consolidated net revenues totaled \$28.1 million for the second quarter of fiscal 2015 as compared to \$26.6 million for the second quarter of fiscal 2014. Revenues from our western and lifestyle footwear products totaled approximately \$18.3 million for the second quarter of fiscal 2015 as compared to \$17.5 million for the second quarter of fiscal 2014. Sales of our premium priced boot products grew by nearly 13% while sales of our other western and lifestyle products, including our children's boots, experienced a slight decline. Revenues related to our work boot products, which include our licensed, private label, and military boot products, increased from \$9.0 million for the second quarter of fiscal 2014 to \$9.7 million for the second quarter of fiscal 2015. The increase net revenues for the work boot segment were primarily attributable to increased military boot sales, which were up by nearly \$914,000 as demand from all of our contracts remained strong. Net revenues associated with our other work boot products were down slightly, primarily attributable to the severe winter weather in the midwest and eastern part of the country. Our sales order backlogs for both boot segments remains strong. As a result, we remain optimistic that we will meet our budgeted sales goals for fiscal 2015.

Consolidated gross profit amounted to approximately \$7.2 million for the second quarter of fiscal 2015, down slightly from approximately \$7.4 million for the second quarter of fiscal 2014. Gross profit associated with our western and lifestyle product sales totaled \$6.2 million for the second quarter of fiscal 2015, up from \$5.9 million for the second quarter of fiscal 2014. This improvement in gross profit resulted primarily from the increased net revenues for our branded boot products, but was partially offset by reduced sales of our licensed boot products. Gross profit related to our work boot product sales amounted to approximately \$1.0 million for the second quarter of fiscal 2015 as compared to \$1.4 million for the second quarter fiscal 2014. This decline in gross profit resulted from primarily reduced sales of our licensed work boot products and higher military boot per unit manufacturing costs, primarily attributable to a significant increase in production personnel. We expect these costs to decrease during the fourth quarter as the work force becomes more efficient.

Consolidated operating costs and expenses totaled approximately \$4.9 million for the second quarter of fiscal 2015 as compared to \$4.8 million fiscal 2014. Increased consolidated operating

costs and expenses for advertising and marketing expenses, administrative salaries, and professional services were partially offset by reduced group health and life charges, bad debt charges, sales compensation costs, and employee benefit charges.

As a result of the above, consolidated operating profit amounted to \$2.3 million for the second quarter of fiscal 2015 as compared to \$2.6 million for the second quarter of fiscal 2014.

FIRST SIX MONTHS FISCAL 2015 COMPARED TO FIRST SIX MONTHS FISCAL 2014

Consolidated net revenues for the first six months of fiscal 2015 totaled \$57.3 million as compared to \$58.3 million for the first six months of fiscal 2014. Our western and lifestyle product sales totaled \$37.7 million for the first six months of fiscal 2015 as compared to \$39.9 million for the first six months of fiscal 2014, as demand for these products remained strong while still tracking against an unusually strong first quarter of fiscal 2014. Net revenues from our work boot business grew from \$18.3 million for the first six months of fiscal 2014 to \$19.5 million for the first six months of fiscal 2015. This increase in work boot products net revenues resulted primarily from higher military boot shipments associated with our U. S. Government and Israeli contracts and was partially offset by a minimal 3% decline in net revenues related to our other work boot lines.

Consolidated gross profit totaled \$16.1 million for the first six months of fiscal 2015 as compared to \$17.7 million for the first six months of fiscal 2014. Gross profit attributable to our western and lifestyle products totaled \$13.1 million for the first six months of fiscal 2015, down from \$14.4 million for the first six months of fiscal 2014. This decrease in gross profit was primarily the result of higher import and sample costs. Our work boot products gross profit declined from \$3.2 million for the first six months of fiscal 2014 to \$2.9 million for the first six months of fiscal 2015. This decrease in gross profit was primarily attributable to the higher per unit manufacturing costs associated with our military boot products as stated above.

Consolidated operating costs and expenses amounted to \$10.0 million for the first six months of fiscal 2015 as compared to \$10.3 million for the first six months of fiscal 2014. This decrease in operating costs and expenses resulted primarily from lower outlays for sales compensation costs, advertising and marketing costs, group health insurance costs and employee benefit charges, which were partially offset by higher expenditures for administrative salaries and professional services.

As a result of the above, the consolidated operating profit amounted to \$6.1 million for the first six months of fiscal 2015 as compared to \$7.4 million for the first six months of fiscal 2014.

FINANCIAL CONDITION AND LIQUIDITY

Our financial condition remained strong at January 31, 2015. Cash and cash equivalents totaled approximately \$13.2 million and our investment portfolio increased to over \$4.0 million. Our working capital amounted to \$49.4 million at January 31, 2015 as compared to \$49.6 million at August 2, 2014.

At January 31, 2015, we maintained two lines of credit with a bank totaling \$6.75 million, all of which was available at the end of the second quarter. One credit line totaling \$1.75 million (which is restricted to one hundred percent of the outstanding receivables due from the U. S. Government) expires in January 2016. Our \$5.0 million line of credit, which also expires in

January 2016, 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.

For the first six months of fiscal 2015, operating activities used approximately \$776,000 of cash. Net earnings, as adjusted for depreciation, provided approximately \$4.2 million of cash. Accounts and notes receivable, as adjusted for valuation allowances, used approximately \$2.0 million of cash as a result of timing of payments related to the western and work boot business. Increased inventory levels, primarily attributable to the military boot business, used approximately \$2.8 million of cash. The timing of inventory payments provided approximately \$677,000 of cash. Employee benefit distributions, accrued payroll and payroll taxes, and income tax payments used approximately \$927,000 of cash.

Investing activities for the first six months of fiscal 2015 used approximately \$4.3 million of cash. Capital expenditures, primarily for manufacturing equipment and computer system related purchases used approximately \$1.3 million of cash. Additional investments in marketable securities used approximately \$3.0 million of cash.

Dividend payments used approximately \$632,000 of cash for the first six months of fiscal 2015.

Reclassification

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 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 the date made. Except as otherwise required by 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 expectation 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)

	January 31, 2015	August 2, 2014
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$13,153	\$18,880
Short term securities	575	76
Accounts and notes receivable, net	15,399	13,428
Inventories, net	25,095	22,288
Income tax receivable	1,729	1,620
Prepaid expenses and other current assets	<u>503</u>	<u>553</u>
Total current assets	<u>56,454</u>	<u>56,845</u>
Property and equipment, net	<u>4,165</u>	<u>3,222</u>
Other assets:		
Deposits	14	14
Long term securities	3,362	872
Real estate held for investment	3,588	3,585
Amount due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>12,076</u>	<u>9,583</u>
Total assets	<u><u>\$72,695</u></u>	<u><u>\$69,650</u></u>

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

	<u>January 31, 2015</u>	<u>August 2, 2014</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts Payable	\$ 4,455	\$ 3,778
Accrued employee benefits	989	1,798
Accrued payroll and payroll taxes	1,094	1,161
Other accrued liabilities	<u>536</u>	<u>463</u>
Total current liabilities	<u>7,074</u>	<u>7,200</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par; Authorized 5,000,000 shares; Issued and outstanding 2,038,543 shares and 2,038,543 shares, respectively	2,039	2,039
Class B, \$1 par; Authorized 2,500,000 shares; Issued and outstanding 391,981 shares and 392,919 shares, respectively	392	392
Retained earnings	<u>63,190</u>	<u>60,019</u>
Total shareholders' equity	<u>65,621</u>	<u>62,450</u>
Total liabilities and shareholders' equity	<u>\$72,695</u>	<u>\$69,650</u>

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

	Three Months Ended		Six Months Ended	
	January 31, 2015	February 1, 2014	January 31, 2015	February 1, 2014
Net revenues	\$ 28,067	\$ 26,604	\$ 57,306	\$ 58,257
Cost of revenues	20,821	19,187	41,196	40,539
Gross profit	<u>7,246</u>	<u>7,417</u>	<u>16,110</u>	<u>17,718</u>
Less: Operating costs and expenses:				
Selling, general and administrative expenses	<u>4,904</u>	<u>4,845</u>	<u>9,962</u>	<u>10,315</u>
Earnings from operations	2,342	2,572	6,148	7,403
Other income	96	76	151	153
Interest expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Earnings before income taxes	2,438	2,648	6,299	7,556
Provision for income taxes	<u>981</u>	<u>1,147</u>	<u>2,495</u>	<u>3,010</u>
Net earnings	<u>\$ 1,457</u>	<u>\$ 1,501</u>	<u>\$ 3,804</u>	<u>\$ 4,546</u>
Earnings per common share:				
Basic earnings per share:				
Class A	\$ 0.84	\$ 0.87	\$ 2.12	\$ 2.45
Class B	.13	.13	.26	.22
Diluted earnings per share:				
Class A	0.71	0.73	1.78	2.06
Class B	N/A	N/A	N/A	N/A
Weighted average number of common shares outstanding:				
Class A	2,038,543	2,038,543	2,038,543	2,038,395
Class B	391,981	391,981	391,981	392,129
Total	<u>2,430,524</u>	<u>2,430,524</u>	<u>2,430,524</u>	<u>2,430,524</u>

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

	Six Months Ended	
	January 31, 2015	February 1, 2014
	<u> </u>	<u> </u>
Net cash (used in) provided by operating activities	\$ (776)	\$ 2,630
Cash flows from investing activities:		
Proceeds from sales of assets	0	0
Purchase of land for investment	(3)	(1)
Capital expenditures	(1,322)	(345)
Purchase of securities	(2,994)	0
	<u> </u>	<u> </u>
Net cash used in investing activities	(4,319)	(346)
Cash flows from financing activities:		
Purchase of company stock	0	0
Dividends paid	(632)	(534)
	<u> </u>	<u> </u>
Net cash used in financing activities	(632)	(534)
Net (decrease) increase in cash and cash equivalents	(5,727)	1,750
Cash and cash equivalents at beginning of period	<u>18,880</u>	<u>10,804</u>
Cash and cash equivalents at end of period	<u>\$ 13,153</u>	<u>\$ 12,554</u>