

**McRAE INDUSTRIES, INC.**  
**REPORTS EARNINGS FOR THE SECOND QUARTER AND**  
**FIRST SIX MONTHS OF FISCAL 2016**

**Mount Gilead, N.C. – March 15, 2016. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for the second quarter of fiscal 2016 of \$28,801,000 as compared to \$28,067,000 for the second quarter of fiscal 2015. Net earnings for the second quarter of fiscal 2016 amounted to \$1,399,000, or \$0.68 per diluted Class A common share as compared to \$1,457,000, or \$0.71 per diluted Class A common share, for the second quarter of fiscal 2015.

Consolidated net revenues for the first six months of fiscal 2016 totaled \$60,531,000 as compared to \$57,306,000 for the first six months of fiscal 2015. Net earnings for the first six months of fiscal 2016 amounted to \$3,394,000, or \$1.61 per diluted Class A common share, as compared to net earnings of \$3,804,000, or \$1.78 per diluted Class A common share, for the first six months of fiscal 2015.

**SECOND QUARTER FISCAL 2016 COMPARED TO SECOND QUARTER FISCAL 2015**

Consolidated net revenues totaled \$28.8 million for the second quarter of fiscal 2016 as compared to \$28.1 million for the second quarter of fiscal 2015. Sales related to our western/lifestyle boot products for the second quarter of fiscal 2016 totaled \$16.3 million as compared to \$18.3 million for the second quarter of fiscal 2015. This 11% decrease in net revenues is primarily a result of decreased sales in our children's boots and premium western boots. Revenues from our work boot products grew approximately 28%, from \$9.7 million for the second quarter of fiscal 2015 to \$12.4 million for the second quarter of fiscal 2016 as the production of military boots related to our multiple government contracts continues to increase.

Consolidated gross profit for the second quarter of fiscal 2016 amounted to approximately \$7.3 million as compared to \$7.2 million for the second quarter of fiscal 2015. Gross profit as a percentage of net revenues was down from 25.8% for the second quarter of fiscal 2015 to 25.5% for the second quarter of fiscal 2016. This is primarily due to the fact that lower margin military boots make up a greater percentage of overall sales, which has driven the margin down over the same quarter last year.

Consolidated selling, general and administrative ("SG&A") expenses totaled approximately \$5.1 million for the second quarter of fiscal 2016 as compared to \$4.9 million for the second quarter of fiscal 2015. This increase in SG&A expenses resulted primarily from increased expenditures for professional services and health insurance costs.

As a result of the above, the consolidated operating profit for the second quarter of fiscal 2016 amounted to \$2.2 million as compared to \$2.3 million for the second quarter of fiscal 2015.

**FIRST SIX MONTHS FISCAL 2016 COMPARED TO FIRST SIX MONTHS FISCAL 2015**

Consolidated net revenues for the first six months of fiscal 2016 totaled \$60.5 million as compared to \$57.3 million for the first six months of fiscal 2015. Our western and lifestyle product sales totaled \$34.7 million for the first six months of fiscal 2016 as compared to \$37.8 million for the first six months of fiscal 2015, with the decrease coming from declines in our children's and premium western boot sales. Net revenues from our work boot business grew from \$19.5 million for the first six months of fiscal 2015 to \$25.7 million for the first six months of

fiscal 2016. This increase in work boot products net revenues resulted primarily from higher military boot shipments associated with our U. S. Government contracts and commercial sales.

Consolidated gross profit totaled \$16.0 million for the first six months of fiscal 2016 as compared to \$16.1 million for the first six months of fiscal 2015. Gross profit attributable to our western and lifestyle products totaled \$12.5 million for the first six months of fiscal 2016, down from \$13.1 million for the first six months of fiscal 2015. This decrease in gross profit is directly correlated with the decrease in sales. Our work boot products gross profit grew from \$2.9 million for the first six months of fiscal 2015 to \$3.4 million for the first six months of fiscal 2016. This increase was driven by the higher military boot shipments mentioned above.

Consolidated selling, general and administrative ("SG&A") expenses totaled approximately \$10.6 million for the first six months of fiscal 2016 as compared to \$10.0 million for the first six months of fiscal 2015. This increase in SG&A expenses resulted primarily from increased expenditures for professional services and health insurance costs.

As a result of the above, the consolidated operating profit amounted to \$5.4 million for the first six months of fiscal 2016 as compared to \$6.1 million for the first six months of fiscal 2015.

## **Financial Condition and Liquidity**

Our financial condition remained strong at January 30, 2016 as cash and cash equivalents totaled \$12.4 million as compared to \$15.4 million at August 1, 2015. Our working capital increased from \$49.7 million at August 1, 2015 to \$51.2 million at January 30, 2016.

We currently have two lines of credit with a bank totaling \$6.75 million, all of which was fully available at January 30, 2016. 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 2017. Our \$5.0 million line of credit, which also expires in January 2017, 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 2016.

For the first six months of fiscal 2016, operating activities used approximately \$0.6 million of cash. Net earnings, as adjusted for depreciation, contributed approximately \$3.8 million of cash. Accounts and notes receivable, as adjusted for valuation allowances, used approximately \$0.3 million of cash as a result of timing of payments related to the western and work boot business. Increased inventory levels in both of our boot businesses used approximately \$2.1 million of cash. Accounts payable, employee benefit distributions, accrued payroll and payroll taxes, and income tax payments used approximately \$2.0 million of cash.

Net cash used by investing activities totaled approximately \$1.7 million, primarily for a building addition and manufacturing equipment.

Net cash used in financing activities totaled \$0.7 million, which was mainly 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**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)  
(Unaudited)

	<u>January 30,</u> <u>2016</u>	<u>August 1,</u> <u>2015</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$12,436	\$15,437
Short term securities	501	500
Accounts and notes receivable, net	15,948	15,636
Inventories, net	27,926	25,757
Income tax receivable	972	879
Prepaid expenses and other current assets	<u>584</u>	<u>532</u>
Total current assets	<u>58,367</u>	<u>58,741</u>
Property and equipment, net	<u>7,013</u>	<u>5,817</u>
Other assets:		
Deposits	14	14
Long term securities	3,384	3,553
Real estate held for investment	3,605	3,594
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>12,115</u>	<u>12,273</u>
Total assets	<u><u>\$77,495</u></u>	<u><u>\$76,831</u></u>

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

	<u>January 30, 2016</u>	<u>August 1, 2015</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$4,816	\$5,599
Accrued employee benefits	865	1,627
Accrued payroll and payroll taxes	928	1,225
Other	<u>561</u>	<u>552</u>
Total current liabilities	<u>7,170</u>	<u>9,003</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,039,822 and 2,039,335 shares, respectively	2,040	2,040
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 389,788 and 391,189 shares, respectively	390	391
Retained earnings	68,131	65,397
Unrealized losses on investments	<u>(236)</u>	<u>0</u>
Total shareholders' equity	<u>70,325</u>	<u>67,828</u>
Total liabilities and shareholders' equity	<u><u>\$77,495</u></u>	<u><u>\$76,831</u></u>

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

	Three Months Ended		Six Months Ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Net revenues	\$28,801	\$28,067	\$60,531	\$57,306
Cost of revenues	<u>21,456</u>	<u>20,821</u>	<u>44,528</u>	<u>41,196</u>
Gross profit	7,345	7,246	16,003	16,110
Selling, general and administrative expenses	<u>5,115</u>	<u>4,904</u>	<u>10,571</u>	<u>9,962</u>
Operating profit	2,230	2,342	5,432	6,148
Other income	<u>104</u>	<u>96</u>	<u>193</u>	<u>151</u>
Earnings before income taxes	2,334	2,438	5,625	6,299
Provision for income taxes	<u>935</u>	<u>981</u>	<u>2,231</u>	<u>2,495</u>
Net earnings	<u><u>\$1,399</u></u>	<u><u>\$1,457</u></u>	<u><u>\$3,394</u></u>	<u><u>\$3,804</u></u>
Earnings per common share:				
Earnings per common share:				
Basic earnings per share:				
Class A	\$0.82	\$0.84	\$1.93	\$2.12
Class B	0.13	0.13	0.26	0.26
Diluted earnings per share:				
Class A	0.68	0.71	1.61	1.78
Class B	NA	NA	NA	NA
Weighted average number of common shares outstanding:				
Class A	2,039,822	2,038,543	2,039,584	2,038,543
Class B	<u>390,003</u>	<u>391,981</u>	<u>390,537</u>	<u>391,981</u>
Total	<u><u>2,429,825</u></u>	<u><u>2,430,524</u></u>	<u><u>2,430,121</u></u>	<u><u>2,430,524</u></u>

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

	<b>Six Months Ended</b>	
	<b>January 30, 2016</b>	<b>January 31, 2015</b>
	<u>          </u>	<u>          </u>
Net cash provided by operating activities	(652)	(776)
Cash Flows from Investing Activities:		
Purchase of land for investment	(11)	(3)
Capital expenditures	(1,611)	(1,322)
Purchase of securities	<u>(67)</u>	<u>(2,994)</u>
Net cash used in investing activities	<u>(1,689)</u>	<u>(4,319)</u>
Cash Flows from Financing Activities:		
Purchase of common stock	(29)	0
Dividends paid	<u>(631)</u>	<u>(632)</u>
Net cash used in financing activities	<u>(660)</u>	<u>(632)</u>
Net (Decrease) Increase in Cash and Cash equivalents	(3,001)	(5,727)
Cash and Cash Equivalents at Beginning of Year	<u>15,437</u>	<u>18,880</u>
Cash and Cash Equivalents at End of Year	<u><u>\$12,436</u></u>	<u><u>\$13,153</u></u>