

McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE THIRD QUARTER AND
FIRST NINE MONTHS OF FISCAL 2014

Mount Gilead, N.C. – June 6, 2014. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues from operations for the third quarter of fiscal 2014 of \$23,455,000 as compared to \$22,585,000 for the third quarter of fiscal 2013. Net earnings for the third quarter of fiscal 2014 amounted to \$1,223,000 or \$0.61 per diluted Class A common share as compared to \$1,333,000, or \$0.62 per diluted Class A common share, for the third quarter of fiscal 2013.

Consolidated net revenues from operations for the first nine months of fiscal 2014 totaled \$81,711,000 as compared to \$73,531,000 for the first nine months of fiscal 2013. Net earnings for the first nine months of fiscal 2014 amounted to \$5,768,000 or \$2.67 per diluted Class A common share, as compared to \$5,143,000, or \$2.75 per diluted Class A common share, for the first nine months of fiscal 2013.

THIRD QUARTER FISCAL 2014 COMPARED TO THIRD QUARTER FISCAL 2013

Consolidated net revenues for the third quarter of fiscal 2014 amounted to \$23.5 million as compared to \$22.6 million for the third quarter of fiscal 2013. Net revenues related to our western/lifestyle boot products totaled \$13.3 million for the third quarter of fiscal 2014 as compared to \$13.6 million for the third quarter of fiscal 2013. This slight reduction in net revenues was primarily attributable to delayed receipt of inventory and extreme weather issues early in the quarter. However, overall demand for these products remained steady. Net revenues from our work boot products grew from \$9.0 million for the third quarter of fiscal 2013 to \$10.0 million for the third quarter of fiscal 2014. This increase in net revenues from our work boot business resulted primarily from continued strong military boot requirements for the U. S. Government and slightly higher demand for work boots as the economy continues to improve.

Consolidated gross profit totaled approximately \$6.3 million for both third quarters of fiscal 2014 and fiscal 2013 as higher product import costs and sales mix shifts had a dampening impact on gross profit margins, which fell from 27.9% for the third quarter of fiscal 2013 to 27.1% for the third quarter of fiscal 2014. Our work boot business gross profit margins increased slightly as higher military boot production levels had a positive impact by lowering per unit manufacturing costs.

Consolidated operating costs and expenses for the third quarter of fiscal 2014 totaled \$4.3 million as compared to \$4.2 million for the third quarter of fiscal 2013. The increase in operating costs and expenses was primarily attributable to higher expenditures or charges for sales related compensation, sales and marketing expenditures, administrative compensation and professional fees, which were partially offset by lower travel and employee benefit charges.

As a result of the above, the consolidated operating earnings for the third quarter of fiscal 2014 were approximately \$2.0 million as compared to approximately \$2.1 million for the third quarter of fiscal 2013.

FIRST NINE MONTHS FISCAL 2014 COMPARED TO FIRST NINE MONTHS FISCAL 2013

Consolidated net revenues for the first nine months of fiscal 2014 amounted to \$81.7 million as compared to \$73.5 million for the first nine months of fiscal 2013. This 11% increase in net revenues resulted from strong performances in both of our product segments. Net revenues from our western/lifestyle products segment grew from \$49.7 million for the first nine months of fiscal 2013 to \$53.2 million for the first nine months of fiscal 2014 as market demand remained strong. The work boot segment net revenues for the first nine months of fiscal 2014 totaled \$28.2 million, up from \$23.7 million for the first nine months of fiscal 2013 as military boot revenues for both our commercial and government business grew nearly 38%.

Consolidated gross profit for the first nine months of fiscal 2014 totaled \$24.1 million as compared to \$22.0 million for the first nine months of fiscal 2013. This 9.5% increase in consolidated gross profit resulted primarily from the combined revenue growth in our western/lifestyle boot and work boot segments. Gross profit as a percentage of net revenues for both boot segments for the first nine months of fiscal 2014 totaled 29.4% as compared to 29.8% for the

first nine months of fiscal 2013. This slight decline in overall gross margin percentage was primarily the result of product mix sales changes as the lower margin military boot sales contributions increased nearly 5% over last year.

Consolidated operating costs and expenses amounted to \$14.7 million for the first nine months of fiscal 2014 as compared to \$13.7 million for the first nine months of fiscal 2013. This increase in consolidated operating costs and expenses was primarily attributable to increased expenditures or charges for sales compensation related costs, marketing and advertising costs, professional fees, and employee benefit charges, which were partially offset by reduced outlays for group health insurance charges and travel costs.

As a result of the above, the consolidated operating profit for the first nine months of fiscal 2014 totaled approximately \$9.4 million as compared to approximately \$8.3 million for the first nine months of fiscal 2013.

FINANCIAL CONDITION AND LIQUIDITY

The Company's financial condition continues to be strong. Cash and cash equivalents totaled \$16.6 million at May 3, 2014 as compared to \$10.8 million at August 3, 2013. Our working capital totaled \$48.1 million at May 3, 2014 as compared to \$43.1 million at August 3, 2013.

We currently maintain two lines of credit with a bank totaling \$6.75 million, all of which was available at May 3, 2014. Our credit line totaling \$1.75 million (which is restricted to one hundred percent of the outstanding receivables due from the U. S. Government) and our \$5.0 million line of credit (which is secured by our western/work boot business accounts receivable and inventory) expire in January 2015.

We believe that our current cash and cash equivalents, cash generated from operations, and available lines of credit will be sufficient to meet our capital requirements for the remainder of fiscal 2014.

Operating activities for the first nine months of fiscal 2014 provided approximately \$7.0 million of cash. Net earnings as adjusted for depreciation, provided \$6.3 million of cash. Our trade accounts receivable provided approximately \$1.6 million of cash as collection outpaced sales. The reduction of inventory levels provided approximately \$1.0 million of cash as third quarter sales remained strong. The timing of inventory and accrued payroll related payments used approximately \$1.1 million of cash. Income tax payments used approximately \$800,000 of cash.

Investing activities used approximately \$363,000 of cash. Capital expenditures, primarily for manufacturing equipment, office equipment and air handling equipment, used approximately \$447,000 of cash. Proceeds from investment land sales provided approximately \$87,000 of cash.

Financing activities used approximately \$849,000 of cash 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 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)

	<u>May 3, 2014</u>	<u>August 3, 2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,618	\$ 10,804
Marketable securities	0	0
Accounts and notes receivable, net	13,826	15,394
Inventories, net	22,041	23,046
Income tax receivable	1,575	695
Prepaid expenses and other current assets	<u>354</u>	<u>482</u>
Total current assets	<u>54,414</u>	<u>50,421</u>
Property and equipment, net	<u>3,218</u>	<u>3,319</u>
Other assets:		
Deposits	14	0
Marketable securities- long term	950	958
Real estate held for investment	3,581	3,626
Amount due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>9,657</u>	<u>9,696</u>
Total assets	<u>\$ 67,289</u>	<u>\$ 63,436</u>

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

	<u>May 3, 2014</u>	<u>August 3, 2013</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts Payable	\$ 3,172	\$ 4,054
Accrued employee benefits	1,475	1,707
Accrued payroll and payroll taxes	1,188	1,209
Other	<u>469</u>	<u>399</u>
Total current liabilities	6,304	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, respectively	2,039	2,038
Class B, \$1 par; Authorized 2,500,000 shares; Issued and outstanding 391,981 shares and 392,919, respectively	392	393
Retained earnings	<u>58,554</u>	<u>53,636</u>
Total shareholders' equity	<u>60,985</u>	<u>56,067</u>
Total liabilities and shareholders' equity	<u><u>\$67,289</u></u>	<u><u>\$63,436</u></u>

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

	Three Months Ended		Nine Months Ended	
	May 3, 2014	April 27, 2013	May 3, 2014	April 27, 2013
Net revenues	\$23,455	\$22,585	\$81,711	\$73,531
Cost of revenues	17,116	16,248	57,654	51,506
Gross profit	6,339	6,337	24,057	22,025
Less: Operating costs and expenses:				
Selling, general and administrative expenses	4,338	4,195	14,654	13,764
Earnings from operations	2,001	2,142	9,403	8,261
Other income	70	62	223	156
Interest expense	(3)	(2)	(3)	(2)
Earnings before income taxes	2,068	2,202	9,623	8,415
Provision for income taxes	845	869	3,855	3,272
Net earnings	\$1,223	\$ 1,333	\$ 5,768	\$ 5,143
Earnings per common share:				
Basic earnings per share:				
Class A	\$.73	\$.74	\$ 3.18	\$ 3.30
Class B	.13	.09	.35	.68
Diluted earnings per share:				
Class A	.61	\$.62	\$ 2.67	\$ 2.75
Class B	N/A	N/A	N/A	N/A
Weighted average number of Common shares outstanding:				
Class A	2,038,543	2,037,358	2,038,444	2,034,124
Class B	391,981	395,426	392,080	402,363
Total	2,430,524	2,432,784	2,430,524	2,436,487

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

	Nine Months Ended	
	May 3, 2014	April 27, 2013
Net cash provided by operating activities	\$ 7,026	\$ 5,059
Cash flows from investing activities:		
Proceeds from sales of assets	87	4
Purchase of land for investment	(3)	(59)
Purchase of securities	0	(1,045)
Capital expenditures	(447)	(807)
	(363)	(1,907)
Net cash used in investing activities		
Cash flows from financing activities:		
Issuance of company stock	0	6
Purchase of company stock	0	(162)
Dividends paid	(849)	(1,838)
	(849)	(1,994)
Net cash used in financing activities		
Net increase in cash and cash equivalents	5,814	1,158
Cash and cash equivalents at beginning of period	10,804	12,874
Cash and cash equivalents at end of period	\$ 16,618	\$ 14,032