McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE THIRD QUARTER AND FIRST NINE MONTHS OF FISCAL 2020

Mount Gilead, N.C. – June 12, 2020. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues for the third quarter of fiscal 2020 ending on May 2, 2020 of $14,292,000 as compared to $18,606,000 for the third quarter of fiscal 2019. The company experienced a net loss for the third quarter of fiscal 2020 in the amount of $504,000, or ($0.22) per diluted Class A common share as compared to net earnings of $386,000, or $0.16 per diluted Class A common share, for the third quarter of fiscal 2019.

Consolidated net revenues for the first nine months of fiscal 2020 totaled $57,291,000 as compared to $59,945,000 for the first nine months of fiscal 2019. Net earnings for the first nine months of fiscal 2020 amounted to $1,063,000, or $0.45 per diluted Class A common share, as compared to net earnings of $1,310,000, or $0.55 per diluted Class A common share, for the first nine months of fiscal 2019.

THIRD QUARTER FISCAL 2020 COMPARED TO THIRD QUARTER FISCAL 2019

Consolidated net revenues totaled $14.3 million for the third quarter of fiscal 2020 as compared to $18.6 million for the third quarter of fiscal 2019. Sales related to our western/lifestyle boot products were $6.5 million for the third quarter of fiscal 2020 as compared to $9.6 million for the third quarter of fiscal 2019. This was primarily driven by a decline across all brands due to the coronavirus pandemic, which especially had an impact on our popular priced western boots sales. Revenues from our work boot products decreased from $8.8 million for the third quarter of fiscal 2019 to $7.6 million for the third quarter of fiscal 2020. This was primarily a result of decreased sales in our military boots and the John Deere brand, offset by an increase in our Dan Post brand.

Consolidated gross profit for the third quarter of fiscal 2020 amounted to approximately $2.7 million as compared to $4.2 million for the third quarter of fiscal 2019. This drop was driven by the decline in sales, as well as the production inefficiencies created by the coronavirus and increased healthcare cost.

Consolidated selling, general and administrative (“SG&A”) expenses have decreased from $3.8 million for the third quarter of fiscal 2019 to $3.4 million for the third quarter of fiscal 2020. This resulted from lower commissions, as well as decreased spending on travel and entertainment.

As a result of the above, the consolidated operating loss for the third quarter of fiscal 2020 amounted to $0.7 million as compared to an operating profit of $0.4 million for the third quarter of fiscal 2019.

FIRST NINE MONTHS FISCAL 2020 COMPARED TO FIRST NINE MONTHS FISCAL 2019

Consolidated net revenues for the first nine months of fiscal 2020 totaled $57 million as compared to $60 million for the first nine months of fiscal 2019. Our western and lifestyle product sales totaled $33.1 million for the first nine months of fiscal 2020 as compared to $34.2 million for the first nine months of fiscal 2019. This was primarily a result of the coronavirus impact on the third quarter sales of our popular priced boots, as well as a decrease in the John Deere brand. Net revenues from our work boot business decreased from $25.5 million for the first nine months of fiscal 2019 to $24.0 million for the first nine months of fiscal 2020. This decrease resulted primarily from lower military boot and John Deere brand sales, offset by increased sales of Dan Post work boots.

Consolidated gross profit totaled $13.4 million for the first nine months of fiscal 2020 as compared to $14.1 million for the first nine months of fiscal 2019. Gross profit attributable to our western and lifestyle products totaled $11.3 million for the first nine months of fiscal 2020, up from $11.0 million for the first nine months of fiscal 2019. This increase was primarily the result of higher sales in our premium western boots. Our work boot products gross profit decreased from $2.8 million for the first nine months of fiscal 2019 to $2.0 million for the first nine months of fiscal 2020. This decline was mainly driven by the lower military boots and John Deere brand sales in the third quarter mentioned above.

Consolidated selling, general, and administrative ("SG&A") expenses remained relatively consistent at $12.3 million for the first nine months of fiscal 2020, as compared to $12.6 million for the first nine months of fiscal 2019.

As a result of the above, the consolidated operating profit amounted to $1.1 million for the first nine months of fiscal 2020 as compared to $1.5 million for the first nine months of fiscal 2019.

Financial Condition and Liquidity

Our financial conditions remain strong at May 2, 2020 as cash and cash equivalents totaled $23.2 million as compared to $12.8 million at August 3, 2019. Given the current economic climate, we put our short term investing on hold, which drove the majority of this increase. Our working capital slightly increased from $54.5 million at August 3, 2019 to $54.8 million at May 2, 2020.

We currently have two lines of credit totaling $6.75 million, all of which was fully available at May 2, 2020. 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 2021. Our $5.0 million line of credit, which also expires in January 2021, 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 2020.

For the first nine months of fiscal 2019, operating activities provided approximately $1.5 million of cash. Net earnings, as adjusted for depreciation, contributed approximately $1.9 million of cash. A reduction in inventory and accounts receivables provided approximately $2.6 million of cash. Accounts payable and employee related expenses, along with accrued income taxes used approximately $3.0 million.

Net cash provided by investing activities totaled approximately $10.0 million, which was primarily due to the sale of securities.

Net cash used in financing activities totaled approximately $1.0 million, which was used primarily for dividend payments.

COVID-19 Developments

The COVID-19 pandemic has affected people throughout our nation and the entire world. Our hearts go out to those whose lives and families have been affected by this unprecedented situation.

For McRae Industries, Inc., the COVID-19 has had a dramatic effect on our production, sales, and profitability during the third quarter of fiscal 2020.

Dan Post Boot Company experienced a decrease in shipments of over 70% in April when compared to the same month last year. This decrease was a direct result of our retail customers shutting down their businesses and consumers staying home due to shelter in place orders issued by their local authorities. Our Dan Post offices in Clarksville, Tennessee were closed on March 30th and all of our personnel were equipped to work from home. Our distribution center in Waverly, Tennessee was declared an essential business which enabled us to continue shipping during this time. Although our sales people were not permitted to visit customers, they stayed in contact with them to make sure they were doing okay and let them know that Dan Post was there to help them in any way possible. Dan Post sales rebounded some in May and were approximately 50% below the same month last year. During April and May, e-commerce sales and stores in the farm channel helped boost the sales numbers. Our Dan Post offices in Clarksville reopened May 18th with a staggered schedule and numerous employees continuing to work from home.

For Dan Post Boot Company, the fourth quarter of fiscal 2020 and all of fiscal 2021 will be challenging. We expect some improvement in sales and are cautiously optimistic about returning to pre-COVID-19 level of sales during the fourth quarter of fiscal 2021. However, based on numerous factors, this could happen sooner or later. Dan Post has strong brands, a diversified customer base, and a great team, which should help accelerate our recovery.

McRae Footwear was designated an Essential Critical Infrastructure Industry and as such was required to continue operating during the COVID-19 pandemic producing military boots for the United States Government. We implemented numerous procedures to protect our employees from COVID-19 and closely followed CDC and OSHA guidelines as they were issued.

In the month of April, McRae Footwear saw production in some departments decrease by 40% from the previous month due to absenteeism related to COVID-19. Numerous employees stayed home to care for their children because of unexpected school and daycare closings, while others stayed home due to health care concerns.

We expect the fourth quarter of fiscal 2020 to also be challenging for McRae Footwear. We do not expect to return to March production levels until our employment numbers return to normal in July or August. Production and sales forecast for fiscal 2021 are hard to determine at this time. We hope to have more clarity after the fourth quarter of fiscal 2020 as we get updated guidance from the United States Government and our commercial retail customers reopen their stores.

Stock Repurchase Program

In June 2020, our Board of Directors approved a repurchase program under which we may repurchase up to $500,000 of shares of McRae Industries common stock. We intend to purchase shares periodically through privately negotiated transactions or in the open market. The actual timing, number and value of shares repurchased under the program will be determined by management in its discretion and will depend on a number of factors, including the market price of the shares, general market and economic conditions, applicable legal requirements and other conditions.

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: uncertainties associated with COVID-19 or coronavirus, including its possible effects on our operations, supply chain, and the demand for our products and services, 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)

	May 2, 2020	August 3, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$23,237	$12,799
Short term securities	2,663	13,209
Accounts and notes receivable, net	12,429	12,975
Inventories, net	18,069	19,761
Income tax receivable	689	406
Prepaid expenses and other current assets	387	634
Total current assets	57,474	59,784
Property and equipment, net	6,246	6,612
Other assets:		
Deposits	14	14
Long term securities	3,918	4,032
Real estate held for investment	3,800	3,800
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Total other assets	12,844	12,958
Total assets	$76,564	$79,354

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

	May 2, 2020	August 3, 2019
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,232	$3,403
Accrued employee benefits	115	460
Accrued payroll and payroll taxes	519	713
Other	840	751
Total current liabilities	2,706	5,327
Deferred tax liabilities	704	704
Total liabilities	3,410	6,031
Shareholders' equity:		
Common Stock:		
Class A, $1 par value; authorized 5,000,000 shares issued and outstanding, 1,964,644 and 1,967,559 shares, respectively	1,964	1,967
Class B, $1 par value; authorized 2,500,000 shares; issued and outstanding, 373,233 and 373,675 shares, respectively	373	374
Unrealized gains(losses) on investments, net of tax	(253)	(12)
Retained earnings	71,070	70,994
Total shareholders' equity	73,154	73,323
Total liabilities and shareholders' equity	$76,564	$79,354

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

	Three Months Ended		Nine Months Ended	
	May 2, 2020	April 27, 2019	May 2, 2020	April 27, 2019
Net revenues	$14,292	$18,606	$57,291	$59,945
Cost of revenues	11,591	14,425	43,872	45,871
Gross profit	2,701	4,181	13,419	14,074
Selling, general and administrative expenses	3,424	3,809	12,303	12,577
Operating profit	(723)	372	1,116	1,497
Other income	102	157	503	434
Earnings before income taxes	(621)	529	1,619	1,931
Provision for income taxes	(117)	143	556	621
Net earnings	($504)	$386	$1,063	$1,310
Earnings per common share:				
Diluted earnings per share:				
Class A	(0.22)	0.16	0.45	0.55
Class B	NA	NA	NA	NA
Weighted average number of common shares outstanding:				
Class A	1,965,723	2,019,442	1,966,830	2,019,604
Class B	373,487	374,104	373,612	374,180
Total	2,339,210	2,393,546	2,340,442	2,393,784

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

	Common Stock, $1 par value				Accumulated Other	
	Class A		Class B		Comprehensive	Retained
	Shares	Amount	Shares	Amount	Income (Loss)	Earnings
Balance, August 3, 2019	1,967,559	$1,967	373,675	$374	($12)	$70,994
Unrealized gains on investments, net of tax					(2)	
Cash Dividend ($0.13 per Class A common stock)						(256)
Cash Dividend ($0.13 per Class B common stock)						(49)
Net earnings						992
Balance, November 2, 2019	1,967,559	$1,967	373,675	$374	($14)	$71,682
Stock Buyback	(1,033)	(1)				(25)
Unrealized gains on investments, net of tax					42	
Cash Dividend ($0.13 per Class A common stock)						(256)
Cash Dividend ($0.13 per Class B common stock)						(48)
Net earnings						576
Balance, February 1, 2020	1,966,526	$1,966	373,675	$374	$28	$71,929
Stock Buyback	(1,882)	(2)	(442)	(1)		(627)
Unrealized gains on investments, net of tax					(281)	
Cash Dividend ($0.13 per Class A common stock)						(256)
Cash Dividend ($0.13 per Class B common stock)						(49)
Net earnings						(504)
Balance, May 2, 2020	1,964,644	$1,964	373,233	$373	($253)	$71,070

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

	Common Stock, $1 par value				Accumulated Other	
	Class A		Class B		Comprehensive	Retained
	Shares	Amount	Shares	Amount	Income (Loss)	Earnings
Balance, July 28, 2018	2,019,974	$2,020	374,272	$375	($28)	$72,622
Stock Buyback	(325)		(76)			(12)
Unrealized gains on investments, net of tax					(99)	
Cash Dividend ($0.63 per Class A common stock)						(1,272)
Cash Dividend ($0.63 per Class B common stock)						(235)
Net earnings						856
Balance, October 27, 2018	2,019,649	$2,020	374,196	$375	($127)	$71,959
Stock Buyback	(563)	(1)				(12)
Unrealized gains on investments, net of tax					2	
Cash Dividend ($0.13 per Class A common stock)						(262)
Cash Dividend ($0.13 per Class B common stock)						(49)
Net earnings						68
Balance, January 26, 2019	2,019,086	$2,019	374,196	$375	($125)	$71,704
Conversion of Class B to Class A Stock	212		(212)			
Stock Buyback	(890)	(1)	(209)	(1)		(26)
Unrealized gains on investments, net of tax					92	
Cash Dividend ($0.13 per Class A common stock)						(262)
Cash Dividend ($0.13 per Class B common stock)						(48)
Net earnings						386
Balance, April 27, 2019	2,018,408	$2,018	373,775	$374	($33)	$71,753

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

	Nine Months Ended	
	May 2, 2020	**April 27, 2019**
Net cash provided by operating activities	1,479	5,047
Cash Flows from Investing Activities:		
Proceeds from sale of land	8	152
Purchase of land for investment	(3)	(25)
Capital expenditures	(449)	(243)
Sale of securities	10,688	24
Purchase of securities	(293)	(9,959)
Net cash used in investing activities	9,951	(10,051)
Cash Flows from Financing Activities:		
Repurchase of company stock	(80)	(53)
Dividends paid	(912)	(2,128)
Net cash used in financing activities	(992)	(2,181)
Net (Decrease) Increase in Cash and Cash equivalents	10,438	(7,185)
Cash and Cash Equivalents at Beginning of Year	12,799	27,604
Cash and Cash Equivalents at End of Period	$23,237	$20,419

The accompanying notes are an integral part of these consolidated financial statements.

McRae Industries, Inc. and Subsidiaries
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

McRae Industries, Inc., (the “Company”, which may be referred to as “we”, “us” or “our”), is a Delaware corporation organized in 1983 and is the successor to a North Carolina corporation organized in 1959. Our principal lines of business are: manufacturing and selling military combat boots and importing and selling western and work boots.

Principles of Consolidation

The consolidated financial statements include the accounts of all of the Company’s wholly owned subsidiaries and other businesses over which we exercise significant control. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The timely preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits with banks and certificates of deposit purchased with an original maturity date of three months or less.

Accounts Receivable

Accounts receivable are stated at amounts expected to be collected from outstanding balances. Probable uncollectible accounts are reserved for by a charge to earnings and a credit to the allowance for doubtful accounts based on the assessment of the current status of individual accounts. Balances that are still outstanding after using reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable. The Company performs on-going credit evaluations of its customers’ financial condition and establishes an allowance for losses on trade receivables based upon factors surrounding the credit risk of specific customers, historical trends, and other information.

Our western and work boot business records an allowance for sales returns which is calculated by applying historical return data to sales subject to potential returns. The allowance for sales returns, which is different from the allowance noted in the preceding paragraph, is included as a component of the allowance presented on the balance sheet.

Inventories

Inventories are stated at the lower of cost or market value using the last-in, first-out (LIFO) method for military boots and using the first-in, first-out (FIFO) method for all other inventories. We regularly review our FIFO basis inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated forecast and demand requirements for the next twelve months. Actual demand and market conditions may be different from those projected by our management primarily as a result of fashion cycles and trends and the overall financial condition of competitors in the western and work boot business.

Marketable Securities

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold securities to their maturity. Held-to-maturity securities are recorded as either short term or long term on the consolidated balance sheets, based on their contractual maturity date and are stated at amortized cost. Investments in debt or equity securities that are not classified as held-to-maturity are carried at fair value and classified as available-for-sale. Realized and unrealized gains and losses on available-for-sale securities are included in other comprehensive income.

Long-Lived Assets and Other Intangibles

The Company reviews long-lived assets with estimable useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

The Company tests identifiable intangible assets with an indefinite life for impairment annually. Furthermore, such assets are required to be tested for impairment on an interim basis if an event or circumstance indicates that it is more likely than not an impairment loss has been incurred. An impairment loss shall be recognized to the extent that the carrying amount of such assets exceeds its implied fair value. Impairment losses shall be recognized in operations. The Company's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and projections of future operating performance. If these assumptions differ materially from future results, the Company may record impairment charges in the future.

Revenue Recognition

Sales of the Company are recognized as revenues when goods are shipped and title passes to the buyer. Our military boot sales to the U.S. Government under our current contracts are recognized as revenues when the goods are received at their designated depot.

Income Taxes

The Company accounts for income taxes under the asset and liability method. Federal and state income taxes are computed at current tax rates, less tax credits. Taxes are adjusted both for items that do not have tax consequences and for the cumulative effect of any changes in tax rates from those previously used to determine deferred tax assets or liabilities. Tax provisions include amounts that are currently payable, plus changes in deferred tax assets and liabilities that arise because of temporary differences between the time when items of income and expense are recognized for financial reporting and income tax purposes. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not such assets will be realized.

The Company follows the applicable authoritative guidance related to accounting for uncertainty in income tax reporting. This guidance clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements. It also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The Company's policy is to recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense. The Company has recognized no interest or penalties since the adoption of the accounting guidance related to accounting for uncertainty in income taxes.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations for fiscal years ending before 2016. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carry forward amount.

Earnings per Share

Under our Articles of Incorporation, we may pay dividends on our Class A Common Stock in excess of the dividends we pay on our Class B Common Stock. As a result, we have computed our earnings per share in compliance with the applicable authoritative guidance. This guidance requires companies that have multiple classes of equity securities to use the “two class” or “if converted method” in computing earnings per share.

For our diluted earnings per share calculation, we use the if-converted method. This calculation assumes that all Class B Common Stock is converted into Class A Common Stock. As a result, there are no holders of Class B Common Stock to participate in undistributed earnings. Furthermore, for Class A shares, distributed earnings with respect to Class A and all undistributed earnings are used to calculate diluted earnings per share.

Earnings per share has been presented in accordance with the applicable guidance. We believe that the holders of Class A and Class B Common Stock have equal rights to the Company’s undistributed earnings, and that our calculation best expresses economic reality.

Advertising

The Company charges advertising costs when incurred as a component of selling, general and administrative expenses.

Shipping and Handling

Shipping and handling costs that are charged to and reimbursed by the customer are recognized as revenues, while the related expenses, including buying, postage, external distribution and warehousing costs incurred by the Company are recorded as components of cost of goods sold in the consolidated statements of operations.

Split-Dollar Life Insurance

The Company is party to a split-dollar arrangement with respect to certain life insurance policies. We record an amount that is to be realized under the split dollar agreement. This amount is the actual premiums paid by the Company or the actual cash surrender value of the policy, whichever is less.

Real Estate Held for Investment

Real estate held for investment is land recorded at cost plus the cost of any improvements. Land is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

2. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from three years for computer equipment to thirty-one and one-half years for buildings. Expenditures for routine maintenance and repairs are charged to expense as incurred.

3. NOTES PAYABLE AND LINES OF CREDIT

Lines of Credit

The Company has a $5,000,000 revolving line of credit with a bank. The Company had no outstanding borrowings under this line of credit as of May 2, 2020 and August 3, 2019. This line of credit provides for interest on outstanding balances to be paid monthly at the prime rate less 1.0%. This line of credit expires in January 2021 and is secured by the inventory and accounts receivable of the Company’s western and work boot subsidiary.

The Company has an additional $1,750,000 line of credit with a bank. This line is restricted to 100% of the outstanding accounts receivable due from the U.S. Government. There were no outstanding borrowings under this line of credit as of May 2, 2020 and August 3, 2019. The line of credit expires in January 2021 and provides for interest on outstanding balances to be paid monthly at the prime rate.

4. EMPLOYEE BENEFIT PLANS

The Company's employee benefit program consists of an employee stock ownership plan, a 401-K retirement plan, a cash bonus program, incentive awards, and other specified employee benefits as approved by the Board of Directors.

The employee stock ownership plan (ESOP) covers substantially all employees. Its principal investments include shares of Class A Common Stock and Class B Common Stock of the Company and collective funds consisting of short-term cash, fixed-income, and equity investments. There have been no contributions to the ESOP in fiscal years 2020, 2019 or 2018.

The Company has a 401-K retirement plan, which covers substantially all employees. Employees can contribute up to 25% of their annual salary to the plan. At its sole discretion, the Board of Directors determines the amount and timing of any Company matching contribution.

5. SHAREHOLDERS' EQUITY

Common Stock

The Company's Bylaws provide for seven directors, two of whom are elected by the holders of the Class A Common Stock voting as a separate class, and five of whom are elected by the holders of the Class B Common Stock voting as a separate class. On all other matters (except matters required by law or the Company's Certificate of Incorporation or Bylaws to be approved by a different vote), the holders of Class A Common Stock and Class B Common Stock vote together as a single class with each share of Class A Common Stock entitled to one-tenth vote and each share of Class B Common Stock entitled to one vote. Each share of Class B Common Stock can be converted to Class A Common Stock on a share for share basis. All dividends paid on Class B Common Stock must also be paid on Class A Common Stock in an equal amount.

The Company has adopted the McRae Industries, Inc. 1998 Incentive Equity Plan (the Plan). Under the Plan, 100,000 shares of the Company's Class A Common Stock are reserved for issuance to certain key employees of the Company. At May 2, 2020, there were 100,000 shares available for future grants under the Plan.

The common stock is currently quoted in the Pink Sheets and stockholders are able to trade their shares in the over-the-counter markets or private transactions.

6. FAIR VALU E OF FINANCIAL INSTRUMENTS

FASB ASC 820 "Fair Value Measurements and Disclosures" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date (that is, an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date. In some circumstances, the entry and exit price may be the same; however, they are conceptually different. The accounting standards also establish a three-level hierarchy that prioritizes the inputs used in fair value measurements. The hierarchy consists of three broad levels as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities;
Level 2 – Observable inputs other than quoted prices within Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and
Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These include certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The fair values of the Company's available for sale securities are determined using quoted market prices in active markets for identical assets or liabilities, which are classified as Level 1 inputs.

The amount due from Split-Dollar Life Insurance policies represents the value of the Company's rights under split-dollar arrangements. Under these arrangements, the Company is entitled to be repaid cumulative premiums paid, or if less, the net cash surrender value of the policies.

7. RELATED PARTY TRANSACTIONS

The Company leases administrative and sales office space in Clarksville, Tennessee for the western boot business from the President of Dan Post Boot Company.