

McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE FOURTH QUARTER AND
FULL YEAR FISCAL 2020

Mount Gilead, N.C. – September 23, 2020. **McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for the fourth quarter of fiscal 2020 ending on August 1, 2020 of \$12,020,000 as compared to \$22,209,000 for the fourth quarter of fiscal 2019. The company experienced a net loss for the fourth quarter of fiscal 2020 in the amount of \$1,178,000, or (\$0.50) per diluted Class A common share as compared to net earnings of \$808,000, or \$0.34 per diluted Class A common share, for the fourth quarter of fiscal 2019.

Consolidated net revenues for fiscal 2020 totaled \$69,311,000 as compared to \$82,154,000 for fiscal 2019. Net losses for fiscal 2020 amounted to \$114,000, or (\$0.05) per diluted Class A common share, as compared to net earnings of \$2,118,000, or \$0.89 per diluted Class A common share, for fiscal 2019.

FOURTH QUARTER FISCAL 2020 COMPARED TO FOURTH QUARTER FISCAL 2019

Consolidated net revenues totaled \$12.0 million for the fourth quarter of fiscal 2020 as compared to \$22.2 million for the fourth quarter of fiscal 2019. Sales related to our western/lifestyle boot products were \$7.1 million for the fourth quarter of fiscal 2020 as compared to \$12.0 million for the fourth quarter of fiscal 2019. This was primarily driven by a decline across all brands due to the effects of the coronavirus pandemic as described below. Revenues from our work boot products decreased from \$10.2 million for the fourth quarter of fiscal 2019 to \$4.9 million for the fourth quarter of fiscal 2020. This was primarily a result of decreased sales in our military boots due to the impacts of the coronavirus pandemic described below. There was also a decrease in John Deere boot sales as we exited that brand, offset by an increase in our Dan Post brand.

Consolidated gross profit for the fourth quarter of fiscal 2020 amounted to approximately \$2.1 million as compared to \$5.2 million for the fourth quarter of fiscal 2019. This drop was driven by the decline in sales, as well as the production inefficiencies created by the coronavirus.

Consolidated selling, general and administrative (“SG&A”) expenses have decreased from \$4.4 million for the fourth quarter of fiscal 2019 to \$3.7 million for the fourth quarter of fiscal 2020. This resulted from decreased spending in a number of areas, including advertising, travel and entertainment, and salaries.

As a result of the above, the consolidated operating loss for the fourth quarter of fiscal 2020 amounted to \$1.5 million as compared to an operating profit of \$0.8 million for the fourth quarter of fiscal 2019.

FISCAL 2020 COMPARED TO FISCAL 2019

Consolidated net revenues for fiscal 2020 totaled \$69.3 million as compared to \$82.2 million for fiscal 2019. Our western and lifestyle product sales totaled \$40.1 million for fiscal 2020 as compared to \$46.2 million for fiscal 2019. This was primarily driven by a decline across all brands due to the effects of the coronavirus pandemic as described below, as well as a decrease in the John Deere sales due to the exit of that brand. Net revenues from our work boot business decreased from \$35.6 million for fiscal 2019 to \$29.0 million for fiscal 2020. This decrease resulted primarily from lower military boot due to the effects of the coronavirus pandemic as described below. There was also a decrease due to the exit of the John Deere brand, offset by increased sales of Dan Post work boots.

Consolidated gross profit totaled \$15.5 million for fiscal 2020 as compared to \$19.3 million for fiscal 2019. Gross profit attributable to our western and lifestyle products totaled \$13.5 million for fiscal 2020, down from \$14.9 million for fiscal 2019. This decrease was directly correlated with the decrease in sales. Our work boot products gross profit decreased from \$4.2 million for fiscal 2019 to \$1.9 million for fiscal 2020. This decline was mainly driven by the lower military boots and John Deere brand sales, as well as the production inefficiencies experienced in the third and fourth quarter.

Consolidated selling, general, and administrative (“SG&A”) expenses have decreased from \$17.0 million for fiscal 2019 to \$16.0 million for fiscal 2020. This resulted from lower commissions, as well as decreased spending on travel and entertainment, and professional services.

As a result of the above, the consolidated operating loss amounted to \$0.4 million for fiscal 2020 as compared to an operating profit of \$2.3 million for fiscal 2019.

Financial Condition and Liquidity

Our financial conditions remain strong at August 1, 2020 as cash and cash equivalents totaled \$21.0 million as compared to \$12.8 million at August 3, 2019. Our working capital decreased from \$54.5 million at August 3, 2019 to \$53.4 million at August 1, 2020.

We currently have two lines of credit totaling \$6.75 million, all of which was fully available at August 1, 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 coming year.

For fiscal 2020, operating activities provided approximately \$6.8 million of cash. Net earnings, as adjusted for depreciation, contributed approximately \$1.0 million of cash. A reduction in inventory and accounts receivables provided approximately \$6.9 million of cash. Other assets and employee related expenses, along with accrued income taxes used approximately \$1.5 million.

Net cash provided by investing activities totaled approximately \$2.8 million, which was primarily due to the sale of securities offset by purchases of securities.

Net cash used in financing activities totaled approximately \$1.5 million, which was used primarily for dividend payments and stock buybacks.

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 fiscal 2020.

Dan Post Boot Company experienced a decrease in sales of 37% and orders of 31% for the fourth quarter of fiscal 2020 when compared to the same quarter last year. These decreases were primarily attributable to the COVID-19 pandemic. Monthly year over year comparisons improved during the quarter with shipments for May at -49%, June at -30%, and July at -33%. Orders for May were at -57%, June at -6%, and July at -11%. Sales for August 2020 decreased by 25% when compared to the same month last year while orders increased by 14% when compared to the same month last year.

The improvement in sales and orders is primarily the result of increased e-commerce sales and increased sales by the farm and ranch retailers. Many of our western retailers continue to suffer from a lack of events such as rodeos and music concerts which drive a considerable portion of their western boot sales.

While we have seen some improvement in sales and orders at Dan Post Boot Company over the past several months, we still expect fiscal 2021 to be a challenging year. We believe that COVID-19 poses the biggest risk to our financial performance as it continues to have a negative impact on our retailers, consumers, and vendors.

McRae Footwear's revenue suffered greatly during the fourth quarter of fiscal 2020 due to absenteeism and other issues related to COVID-19. Our sales decreased by 60% when compared to the same quarter last year. During the month of August, we began having employees return to work and hope to be at a pre-COVID-19 level of production by the end of the first quarter of fiscal 2021.

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.

Contact:

D. Gary McRae
(910) 439-6147

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

	<u>August 1, 2020</u>	<u>August 3, 2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,959	\$ 12,799
Short term securities	9,750	13,209
Accounts and notes receivable, net	8,027	12,975
Inventories, net	18,255	19,761
Income tax receivable	954	406
Prepaid expenses and other current assets	<u>858</u>	<u>634</u>
Total current assets	<u>58,803</u>	<u>59,784</u>
Property and equipment, net	<u>6,060</u>	<u>6,612</u>
Other assets:		
Deposits	14	14
Long term securities	4,131	4,032
Real estate held for investment	3,784	3,800
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>13,041</u>	<u>12,958</u>
Total assets	<u><u>\$ 77,904</u></u>	<u><u>\$ 79,354</u></u>

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

	<u>August 1, 2020</u>	<u>August 3, 2019</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,871	\$ 3,403
Accrued employee benefits	400	460
Accrued payroll and payroll taxes	457	713
Other	<u>692</u>	<u>751</u>
Total current liabilities	<u>5,420</u>	<u>5,327</u>
Deferred tax liabilities	<u>704</u>	<u>704</u>
Total liabilities	<u>6,124</u>	<u>6,031</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 1,957,142 and 1,967,559 shares, respectively	1,957	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	-	(12)
Retained earnings	<u>69,450</u>	<u>70,994</u>
Total shareholders' equity	<u>71,780</u>	<u>73,323</u>
Total liabilities and shareholders' equity	<u><u>\$ 77,904</u></u>	<u><u>\$ 79,354</u></u>

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

	Three Months Ended		Year Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Net revenues	\$ 12,020	\$ 22,209	\$ 69,311	\$ 82,154
Cost of revenues	9,890	16,980	53,763	62,851
Gross profit	2,130	5,229	15,548	19,303
Selling, general and administrative expenses	3,671	4,428	15,973	17,005
Operating profit (loss)	(1,541)	801	(425)	2,298
Other income	58	217	562	651
Unrealized gains (losses) on investments	(59)	-	(59)	-
Earnings before income taxes	(1,542)	1,018	78	2,949
Provision for income taxes	(364)	210	192	831
Net earnings (loss)	<u>\$ (1,178)</u>	<u>\$ 808</u>	<u>\$ (114)</u>	<u>\$ 2,118</u>
Earnings (loss) per common share:				
Diluted earnings (loss) per share:				
Class A	\$ (0.50)	\$ 0.34	\$ (0.05)	\$ 0.89
Class B	NA	NA	NA	NA
Weighted average number of common shares outstanding:				
Class A	1,962,120	2,017,093	1,965,652	2,018,940
Class B	373,233	373,740	373,517	374,064
Total	<u>2,335,353</u>	<u>2,390,833</u>	<u>2,339,169</u>	<u>2,393,004</u>

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

	Common Stock, \$1 par value				Accumulated Other Comprehensive Income (Loss)	Retained Earnings
	Class A		Class B			
	Shares	Amount	Shares	Amount		
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)		(51)
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
Stock Buyback	(7,502)	(7)				(126)
Unrealized gains on investments, net of tax					253	(13)
Cash Dividend (\$0.13 per Class A common stock)						(254)
Cash Dividend (\$0.13 per Class B common stock)						(48)
Net earnings (loss)						(1,178)
Balance, August 1, 2020	1,957,142	\$1,957	373,233	\$373	\$0	\$69,450

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

	Common Stock, \$1 par value				Accumulated Other Comprehensive Income (Loss)	Retained Earnings
	Class A		Class B			
	Shares	Amount	Shares	Amount		
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
Stock Buyback	(50,849)	(51)	(100)			(1,257)
Unrealized gains on investments, net of tax					21	
Cash Dividend (\$0.13 per Class A common stock)						(262)
Cash Dividend (\$0.13 per Class B common stock)						(48)
Net earnings						808
Balance, August 3, 2019	1,967,559	\$1,967	373,675	\$374	(\$12)	\$70,994

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

	<u>August 1, 2020</u>	<u>August 3, 2019</u>
Net cash provided by operating activities	<u>\$ 6,806</u>	<u>\$ 395</u>
Cash Flows from Investing Activities:		
Proceeds from sale of land	15	153
Purchase of land for investment	(4)	(44)
Capital expenditures	(525)	(396)
Sale of securities	13,371	274
Purchase of securities	<u>(10,075)</u>	<u>(11,389)</u>
Net cash used in investing activities	<u>2,782</u>	<u>(11,402)</u>
Cash Flows from Financing Activities:		
Repurchase of company stock	(213)	(1,360)
Dividends paid	<u>(1,215)</u>	<u>(2,439)</u>
Net cash used in financing activities	<u>(1,428)</u>	<u>(3,799)</u>
Net (Decrease) Increase in Cash and Cash equivalents	8,160	(14,806)
Cash and Cash Equivalents at Beginning of Year	<u>12,799</u>	<u>27,605</u>
Cash and Cash Equivalents at End of Period	<u><u>\$ 20,959</u></u>	<u><u>\$ 12,799</u></u>

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 2017. 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 August 1, 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 August 1, 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 August 1, 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 VALUE 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.