McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE FIRST QUARTER
OF FISCAL 2023

Mount Gilead, N.C. – December 14, 2022. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues for the first quarter of fiscal 2023 of $33,783,000 as compared to $27,588,000 for the first quarter of fiscal 2022. Net earnings for the first quarter of fiscal 2023 amounted to $2,857,000, or $1.26 per diluted Class A common share as compared to $2,222,000, or $0.98 per diluted Class A common share, for the first quarter of fiscal 2022.

FIRST QUARTER FISCAL 2023 COMPARED TO FIRST QUARTER FISCAL 2022

Consolidated net revenues totaled $33.8 million for the first quarter of fiscal 2023 as compared to $27.6 million for the first quarter of fiscal 2022. Sales related to our western/lifestyle boot products for the first quarter of fiscal 2023 totaled $26.8 million as compared to $19.9 million for the first quarter of fiscal 2022. This 35% increase can be attributed to increases across all brands. However, we do expect sales for these products to decrease during the remainder of Fiscal 2023 as compared to the prior year. Revenues from our work boot products decreased approximately 3%, from $7.2 million for the first quarter of fiscal 2022 to $7.0 million for the first quarter of fiscal 2023. This is primarily a result of decreased Dan Post and Laredo work boot sales offset by an increase in military boot sales. During the first quarter, we continued to have difficulty hiring and training qualified employees in our military boot manufacturing facility. This, along with machinery delivery issues, resulted in a decrease in scheduled production for the U.S. Government military boot orders. The company is working diligently to solve these production issues.

Consolidated gross profit for the first quarter of fiscal 2023 amounted to approximately $10.3 million as compared to $8.0 million for the first quarter of fiscal 2022. Gross profit as a percentage of net revenues was up from 28.9% for the first quarter of fiscal 2022 to 30.5% for the first quarter of fiscal 2023. This is primarily attributable to our sales mix being more heavily weighted in our higher margin western/lifestyle boot products.

Consolidated selling, general and administrative (“SG&A”) expenses totaled approximately $6.0 million for the first quarter of fiscal 2023 as compared to $5.1 million for first quarter of fiscal 2022. This is primarily due to increased commissions and employee related expenses.

As a result of the above, the consolidated operating profit for the first quarter of fiscal 2023 amounted to $4.2 million as compared to $2.8 million for the first quarter of fiscal 2022.

Financial Condition and Liquidity

Our financial condition remained strong at October 29, 2022 as cash and cash equivalents totaled $13.3 million as compared to $15.3 million at July 30, 2022. Our working capital increased from $67.0 million at July 30, 2022 to $69.4 million at October 29, 2022.

We currently have two lines of credit totaling $6.75 million, all of which were fully available at October 29, 2022. 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 2023. Our $5.0 million line of credit, which also expires in January 2023, is secured by the inventory and accounts receivable of our Dan Post Boot Company subsidiary.

Net cash used in operating activities for the first quarter of fiscal 2022 amounted to $1.2 million. Net earnings, as adjusted for depreciation, contributed approximately $3.1 million of cash. Inventory used approximately $7.1 million of cash and accounts payable used approximately $1.1 million of cash. Accounts receivable and accrued income taxes provided approximately $3.7 million of cash.

Net cash used in investing activities for the first quarter of fiscal 2023 totaled approximately $0.5 million, primarily due to the purchase of fixed assets.

Net cash used in financing activities for the first quarter of fiscal 2023 totaled $0.3 million, which was primarily used for dividend payments.

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 2023.

Furthermore, the two properties in Berkeley County, South Carolina for which we have entered into agreements to sell for $3,250,000 remain in the due diligence period at this time.

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)

	October 29, 2022	July 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$13,343	$15,315
Equity investments	5,914	6,088
Debt securities	4,458	4,458
Accounts receivable, net	23,614	26,092
Inventories, net	31,539	24,484
Prepaid expenses and other current assets	648	317
Total current assets	79,516	76,754
Property and equipment, net	5,280	5,151
Other assets:		
Deposits	14	14
Notes receivable	985	977
Real estate held for investment	3,036	3,036
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Total other assets	9,147	9,139
Total assets	$93,943	$91,044

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

	October 29, 2022	July 30, 2022
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$4,057	$5,168
Accrued employee benefits	2,864	2,172
Accrued payroll and payroll taxes	713	1,188
Income tax payable	1,485	284
Other	1,009	958
Total current liabilities	10,128	9,770
Deferred tax liabilities	25	25
Total liabilities	10,153	9,795
Shareholders' equity:		
Common Stock:		
Class A, $1 par value; authorized 5,000,000 shares issued and outstanding, 1,895,035 and 1,895,035 shares, respectively	1,895	1,895
Class B, $1 par value; authorized 2,500,000 shares; issued and outstanding, 365,125 and 365,125 shares, respectively	365	365
Retained earnings	81,530	78,989
Total shareholders' equity	83,790	81,249
Total liabilities and shareholders' equity	$93,943	$91,044

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

	Three Months Ended	
	October 29, 2022	October 30, 2021
Net revenues	$33,783	$27,588
Cost of revenues	23,489	19,604
Gross profit	10,294	7,984
Selling, general and administrative expenses	6,046	5,136
Operating profit	4,248	2,848
Other income	(189)	208
Earnings before income taxes	4,059	3,056
Provision for income taxes	1,202	834
Net earnings	$2,857	$2,222
Earnings per common share:		
Diluted earnings per share:		
Class A	1.26	0.98
Class B	NA	NA
Weighted average number of common shares outstanding:		
Class A	1,895,035	1,893,423
Class B	365,125	366,737
Total	2,260,160	2,260,160

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 31, 2021	1,893,423	$1,893	366,737	$367	$0	$69,986
Cash Dividend ($0.13 per Class A common stock)						(246)
Cash Dividend ($0.13 per Class B common stock)						(47)
Net earnings						2,222
Balance, October 30, 2021	1,893,423	$1,893	366,737	$367	$0	$71,915

	Common Stock, $1 par value				Accumulated Other	
	Class A		Class B		Comprehensive	Retained
	Shares	Amount	Shares	Amount	Income (Loss)	Earnings
Balance, July 30, 2022	1,895,035	$1,895	365,125	$365	$0	$78,989
Cash Dividend ($0.14 per Class A common stock)						(265)
Cash Dividend ($0.14 per Class B common stock)						(51)
Net earnings						2,857
Balance, October 29, 2022	1,895,035	$1,895	365,125	$365	$0	$81,530

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

	Three Months Ended	
	October 29, 2022	**October 30, 2021**
Cash Flows from Operating Activities:		
Net earnings	$2,857	$2,222
Adjustments to reconcile net earnings to net cash used in operating activities	(4,036)	(6,989)
Net cash used in operating activities	(1,179)	(4,767)
Cash Flows from Investing Activities:		
Proceeds from sale of assets	-	200
Capital expenditures	(374)	(117)
Purchase of securities	(103)	(246)
Proceeds from sale of securities	-	2,400
Net cash provided by investing activities	(477)	2,237
Cash Flows from Financing Activities:		
Dividends paid	(316)	(294)
Net cash used in financing activities	(316)	(294)
Net (Decrease) Increase in Cash and Cash equivalents	(1,972)	(2,824)
Cash and Cash Equivalents at Beginning of Year	15,315	23,489
Cash and Cash Equivalents at End of Period	$13,343	$20,665

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

The Company defines cash and cash equivalents as cash and short-term investments with original maturities of three months or less. The Company maintains cash balances with financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Although the Company maintains balances that exceed the federally insured limit, the Company has not experienced any losses related to this balance and the Company believes credit risk to be minimal.

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.

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.

Investments

The Company measures all equity investments that do not result in consolidation and are not accounted for under the equity method at fair value with the change in fair value included in net income. We use quoted market prices to determine the fair value of equity securities with readily determinable fair values. For equity securities without readily determinable fair values, we have elected the measurement alternative under which we measure these investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Management assesses each of these investments on an individual basis.

Our investments in debt securities are carried at either amortized cost or fair value. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are carried at amortized cost and classified as held-to-maturity. Investments in debt securities that are not classified as held-to-maturity are carried at fair value and classified as either trading or available-for-sale. Realized and unrealized gains and losses on trading debt securities as well as realized gains and losses on available-for-sale debt securities are included in net income. Unrealized gains and losses, net of tax, on available-for-sale debt securities are included in our consolidated balance sheet as a component of AOCI, except for the change in fair value attributable to the currency risk being hedged, if applicable, which is included in net 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. Based on its most recent analysis, the Company believes that no impairment exists as of July 30, 2022 and July 31, 2021, respectively.

Revenue Recognition

Revenue is recognized upon the transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. Where a formal contract does not exist, the Company determined that customer purchase orders primarily represent contracts. The Company's contracts generally include promises to sell boots. Customers also have the ability to receive shipments directly from the Company's vendors. Revenue associated with the sales of the Company's products are recognized at a point in time, which occurs when control of a good promised in a contract is transferred to a customer. Control is obtained when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good, which generally occurs either on shipment or delivery based on the contractual terms.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for the transfer of the promised products and services. The amount of consideration the Company expects to receive changes due to variable consideration is associated with allowances due to promotional programs, discounts, and rebates that we offer to customers. The amount of variable consideration which is included in the transaction price is only included in net sales to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur in a future period.

Costs of Goods Sold

Costs of goods sold consist of costs associated with procuring materials from suppliers. Sales discounts received from suppliers are recorded as a reduction of the cost of inventory.

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 2018. 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.

The Company had no common stock equivalents issued or outstanding for the three-year period ended July 30, 2022.

Advertising

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

Shipping and Handling

The Company incurs shipping and handling costs when delivering products to customers. All amounts billed to a customer in a sales transaction related to shipping and handling are recognized as revenue for the goods provided.

Shipping and handling costs are classified as part of operating expenses in the accompanying consolidated statement 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. INVESTMENTS

Equity securities with readily determinable fair values are not assessed for impairment, since they are carried at fair value with the change included in net income. Debt securities classified as available-for-sale or held-to-maturity are reviewed each reporting period to determine whether a significant event or change in circumstances has occurred that may have an adverse effect on the fair value of each investment. When such events or changes occur, we evaluate the fair value compared to our cost basis in the investment. In the event the fair value of an investment declines below our cost basis, management is required to determine if the decline in fair value is other than temporary. If management determines the decline is other than temporary, an impairment charge is recorded.

4. 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 July 30, 2022 and July 31, 2021. 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 2023 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 July 30, 2022 and July 31, 2021. The line of credit expires in January 2023 and provides for interest on outstanding balances to be paid monthly at the prime rate.

5. 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 2022, 2021 or 2020.

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.

6. 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 July 30, 2022, 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.

7. 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.