

McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE THIRD QUARTER AND
FIRST NINE MONTHS OF FISCAL 2016

Mount Gilead, N.C. – June 15, 2016. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues for the third quarter of fiscal 2016 of \$25,150,000 as compared to \$25,828,000 for the third quarter of fiscal 2015. Net earnings for the third quarter of fiscal 2016 amounted to \$681,000, or \$0.39 per diluted Class A common share as compared to \$1,209,000, or \$0.61 per diluted Class A common share, for the third quarter of fiscal 2015.

Consolidated net revenues for the first nine months of fiscal 2016 totaled \$85,681,000 as compared to \$83,134,000 for the first nine months of fiscal 2015. Net earnings for the first nine months of fiscal 2016 amounted to \$4,075,000, or \$2.00 per diluted Class A common share, as compared to net earnings of \$5,013,000, or \$2.39 per diluted Class A common share, for the first nine months of fiscal 2015.

THIRD QUARTER FISCAL 2016 COMPARED TO THIRD QUARTER FISCAL 2015

Consolidated net revenues totaled \$25.1 million for the third quarter of fiscal 2016 as compared to \$25.8 million for the third quarter of fiscal 2015. Sales related to our western/lifestyle boot products for the third quarter of fiscal 2016 totaled \$12.5 million as compared to \$15.5 million for the third quarter of fiscal 2015. This 19% decrease in net revenues is primarily a result of decreased sales in our premium western boots. Revenues from our work boot products grew approximately 22%, from \$10.3 million for the third quarter of fiscal 2015 to \$12.6 million for the third quarter of fiscal 2016 as the production of military boots related to our multiple government contracts continues to increase.

Consolidated gross profit for the third quarter of fiscal 2016 amounted to approximately \$5.6 million as compared to \$6.4 million for the third quarter of fiscal 2015. Gross profit as a percentage of net revenues was down from 24.7% for the third quarter of fiscal 2015 to 22.3% for the third quarter of fiscal 2016. This is primarily due to the fact that lower margin military boots make up a greater percentage of overall sales.

Consolidated selling, general and administrative (“SG&A”) expenses remain relatively consistent with approximately \$4.5 million for the third quarter of fiscal 2016 and \$4.4 million for the third quarter of fiscal 2015.

As a result of the above, the consolidated operating profit for the third quarter of fiscal 2016 amounted to \$1.1 million as compared to \$1.9 million for the third quarter of fiscal 2015.

FIRST NINE MONTHS FISCAL 2016 COMPARED TO FIRST NINE MONTHS FISCAL 2015

Consolidated net revenues for the first nine months of fiscal 2016 totaled \$85.7 million as compared to \$83.1 million for the first nine months of fiscal 2015. Our western and lifestyle product sales totaled \$47.2 million for the first nine months of fiscal 2016 as compared to \$53.1 million for the first nine months of fiscal 2015, with the decrease coming from declines in our children’s and premium western boot sales. Net revenues from our work boot business grew from \$29.8 million for the first nine months of fiscal 2015 to \$38.3 million for the first nine months of fiscal 2016. This increase in work boot products net revenues resulted primarily from higher military boot shipments associated with our U. S. Government contracts and commercial sales.

Consolidated gross profit totaled \$21.6 million for the first nine months of fiscal 2016 as compared to \$22.5 million for the first nine months of fiscal 2015. Gross profit attributable to our western and lifestyle products totaled \$16.8 million for the first nine months of fiscal 2016, down from \$18.6 million for the first nine months of fiscal 2015. This decrease in gross profit is directly correlated with the decrease in sales. Our work boot products gross profit grew from \$3.7 million for the first nine months of fiscal 2015 to \$4.6 million for the first nine months of fiscal 2016. This increase was driven by the higher military boot shipments mentioned above.

Consolidated selling, general and administrative (“SG&A”) expenses totaled approximately \$15.1 million for the first nine months of fiscal 2016 as compared to \$14.4 million for the first nine months of fiscal 2015. This increase in SG&A expenses resulted primarily from increased expenditures for administrative salaries, professional services, and health insurance costs.

As a result of the above, the consolidated operating profit amounted to \$6.5 million for the first nine months of fiscal 2016 as compared to \$8.1 million for the first nine months of fiscal 2015.

Financial Condition and Liquidity

Our financial conditions remain strong at April 30, 2016 as cash and cash equivalents totaled \$15.8 million as compared to \$15.4 million at August 1, 2015. Our working capital increased from \$49.7 million at August 1, 2015 to \$50.5 million at April 30, 2016.

We currently have two lines of credit with a bank totaling \$6.75 million, all of which was fully available at April 30, 2016. One credit line totaling \$1.75 million (which is restricted to one hundred percent of the outstanding receivables due from the Government) expires in January 2017. Our \$5.0 million line of credit, which also expires in January 2017, is secured by the inventory and accounts receivable of our Dan Post Boot Company subsidiary. We believe that our current cash and cash equivalents, cash generated from operations, and available credit lines will be sufficient to meet our capital requirements for the remainder of fiscal 2016.

For the first nine months of fiscal 2016, operating activities provided approximately \$4.4 million of cash. Net earnings, as adjusted for depreciation, contributed approximately \$4.7 million of cash. Accounts and notes receivable, as adjusted for valuation allowances, provided approximately \$1.5 million of cash. Accounts payable, employee benefit distributions, accrued payroll and payroll taxes, and income tax payments used approximately \$2.0 million of cash.

Net cash used by investing activities totaled approximately \$2.7 million, primarily for a building addition, manufacturing equipment, and a new ERP system.

Net cash used in financing activities totaled \$1.3 million, which was mainly used for dividend payments.

Forward-Looking Statements

This press release includes certain forward-looking statements. Important factors that could cause actual results or events to differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements include: the effect of competitive products and pricing, risks unique to selling goods to the Government (including variation in the Government's requirements for our products and the Government's ability to terminate its contracts with vendors), changes in fashion cycles and trends in the western boot business, loss of key customers, acquisitions, supply interruptions, additional financing requirements, our expectations about future Government orders for military boots, loss of key management personnel, our ability to successfully develop new products and services, and the effect of general economic conditions in our markets.

Contact:

D. Gary McRae

(910) 439-6147

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

| | <u>April 30,</u> <u>2016</u> | <u>August 1,</u> <u>2015</u> |
|--|---------------------------------|---------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$15,844 | \$15,437 |
| Short term securities | 501 | 500 |
| Accounts and notes receivable, net | 14,104 | 15,636 |
| Inventories, net | 25,624 | 25,757 |
| Income tax receivable | 1,079 | 879 |
| Prepaid expenses and other current assets | <u>545</u> | <u>532</u> |
| Total current assets | <u>57,697</u> | <u>58,741</u> |
| Property and equipment, net | <u>7,759</u> | <u>5,817</u> |
| Other assets: | | |
| Deposits | 14 | 14 |
| Long term securities | 3,471 | 3,553 |
| Real estate held for investment | 3,607 | 3,594 |
| Amounts due from split-dollar life insurance | 2,288 | 2,288 |
| Trademarks | <u>2,824</u> | <u>2,824</u> |
| Total other assets | <u>12,204</u> | <u>12,273</u> |
| Total assets | <u><u>\$77,660</u></u> | <u><u>\$76,831</u></u> |

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

| | <u>April 30, 2016</u> | <u>August 1, 2015</u> |
|--|---------------------------|---------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$4,426 | \$5,599 |
| Accrued employee benefits | 1,002 | 1,627 |
| Accrued payroll and payroll taxes | 1,198 | 1,225 |
| Other | <u>576</u> | <u>552</u> |
| Total current liabilities | <u>7,202</u> | <u>9,003</u> |
| Shareholders' equity: | | |
| Common Stock: | | |
| Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,030,658 and 2,039,335 shares, respectively | 2,031 | 2,040 |
| Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 387,629 and 391,189 shares, respectively | 388 | 391 |
| Retained earnings | 68,197 | 65,397 |
| Unrealized losses on investments | <u>(158)</u> | <u>0</u> |
| Total shareholders' equity | <u>70,458</u> | <u>67,828</u> |
| Total liabilities and shareholders' equity | <u><u>\$77,660</u></u> | <u><u>\$76,831</u></u> |

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

| | Three Months Ended | | Nine Months Ended | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | April 30, 2016 | May 2, 2015 | April 30, 2016 | May 2, 2015 |
| Net revenues | \$25,150 | \$25,828 | \$85,681 | \$83,134 |
| Cost of revenues | <u>19,552</u> | <u>19,455</u> | <u>64,079</u> | <u>60,651</u> |
| Gross profit | 5,598 | 6,373 | 21,602 | 22,483 |
| Selling, general and administrative expenses | <u>4,517</u> | <u>4,424</u> | <u>15,089</u> | <u>14,386</u> |
| Operating profit | 1,081 | 1,949 | 6,513 | 8,097 |
| Other income | <u>78</u> | <u>87</u> | <u>271</u> | <u>238</u> |
| Earnings before income taxes | 1,159 | 2,036 | 6,784 | 8,335 |
| Provision for income taxes | <u>478</u> | <u>827</u> | <u>2,709</u> | <u>3,322</u> |
| Net earnings | <u><u>\$681</u></u> | <u><u>\$1,209</u></u> | <u><u>\$4,075</u></u> | <u><u>\$5,013</u></u> |
| Earnings per common share: | | | | |
| Earnings per common share: | | | | |
| Basic earnings per share: | | | | |
| Class A | \$0.46 | \$0.72 | \$2.39 | \$2.84 |
| Class B | 0.13 | 0.13 | 0.39 | 0.39 |
| Diluted earnings per share: | | | | |
| Class A | 0.39 | 0.61 | 2.00 | 2.39 |
| Class B | NA | NA | NA | NA |
| Weighted average number of common shares outstanding: | | | | |
| Class A | 2,033,799 | 2,038,543 | 2,037,655 | 2,038,543 |
| Class B | <u>388,381</u> | <u>391,981</u> | <u>389,818</u> | <u>391,981</u> |
| Total | <u><u>2,422,180</u></u> | <u><u>2,430,524</u></u> | <u><u>2,427,473</u></u> | <u><u>2,430,524</u></u> |

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

| | Nine Months Ended | |
|--|------------------------|------------------------|
| | April 30, 2016 | May 2, 2015 |
| | <u> </u> | <u> </u> |
| Net cash provided by operating activities | 4,364 | 3,618 |
| Cash Flows from Investing Activities: | | |
| Purchase of land for investment | (13) | (9) |
| Capital expenditures | (2,581) | (2,014) |
| Purchase of securities | <u>(78)</u> | <u>(3,175)</u> |
| Net cash used in investing activities | <u>(2,672)</u> | <u>(5,198)</u> |
| Cash Flows from Financing Activities: | | |
| Purchase of common stock | (340) | 0 |
| Dividends paid | <u>(945)</u> | <u>(947)</u> |
| Net cash used in financing activities | <u>(1,285)</u> | <u>(947)</u> |
| Net (Decrease) Increase in Cash and Cash equivalents | 407 | (2,527) |
| Cash and Cash Equivalents at Beginning of Year | <u>15,437</u> | <u>18,880</u> |
| Cash and Cash Equivalents at End of Year | <u><u>\$15,844</u></u> | <u><u>\$16,353</u></u> |