

McRAE INDUSTRIES, INC.

REPORTS EARNINGS FOR FISCAL 2013

Mount Gilead, N.C. – November 11, 2013. **McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for fiscal 2013 of \$97,071,000 as compared to \$75,684,000 for fiscal 2012. Net earnings for fiscal 2013 totaled \$7,498,000 as compared to \$4,842,000 for fiscal 2012. Net earnings per diluted Class A common share were \$3.79 for fiscal 2013 as compared to \$2.27 for fiscal 2012.

CONSOLIDATED RESULTS OF OPERATIONS, FISCAL 2013 COMPARED TO FISCAL 2012

Consolidated net revenues for fiscal 2013 amounted to approximately \$97.1 million as compared to \$75.7 million for fiscal 2012. This 28% increase in net revenues was primarily attributable to strong performance in both of our boot product segments. Our western/lifestyle products business grew from \$52.5 million for fiscal 2012 to \$62.8 million for fiscal 2013 as demand for both men and women's products continued to be heavy. Consolidated net revenues from our work boot product sales increased from \$23.0 million for fiscal 2012 to \$33.3 million for fiscal 2013 as nearly all of our product lines recorded higher sales than the previous year. This 45% improvement in net revenues was the result of two main factors. First, the rebound of the construction industry in the U.S. had a positive impact on the demand for our traditional work products. Secondly, and more significantly, at the end of fiscal 2012, we received two new military boot contracts which have a base year and four one-year options. In addition, we also received a two year contract with a third year option to manufacture military boots for the nation of Israel. In September 2013, we were the successful bidder on a U.S. Government contract to manufacture boots for the Marines. This contract also has a one year base period and four one-year options. Net revenues associated with our bar code business were insignificant for fiscal 2013 and are expected to be minimal in the future. For fiscal 2014, we are cautiously optimistic that the demand for our western/lifestyle products will remain strong and that the improved economy will have a positive impact on our non-military work boot business. We expect our military boot contracts to provide a solid base for improved net revenue performance for fiscal 2014.

Consolidated gross profit for fiscal 2013 totaled \$29.5 million as compared to \$23.4 million for fiscal 2012. This 26% growth in gross profit resulted from increased net revenues associated with both of our boot segments. Gross profit as a percentage of net revenues fell from 30.9% for fiscal 2012 to 30.4% for fiscal 2013. This decline in gross profit as a percentage of net revenues was primarily the result of higher imported product costs, which was partially offset by improved margins associated with the military boot business. Imported product cost increases are expected to continue to apply pricing pressure which will potentially have an impact on our margins for fiscal 2014.

Consolidated selling, general and administrative ("SG&A") expenses increased nearly 15%, up from \$15.7 million for fiscal 2012 to \$18.0 million for fiscal 2013. This increase in SG&A expenses was the result of higher support costs associated with the increase in net revenues. As a percentage of net revenues, SG&A expenses for fiscal 2013 totaled 18.5% as compared to 20.7% for fiscal 2012. Increased expenditures for sales related compensation, travel expenses, operating supplies, administrative compensation costs, health insurance coverage, bad debt charges, professional fees, and employee benefit costs were partially offset by reduced outlays for real estate rentals and advertising programs.

As a result of the above, consolidated operating profit for fiscal 2013 totaled approximately \$11.5 million as compared to \$7.7 million for fiscal 2012.

FINANCIAL CONDITION AND LIQUIDITY

At August 3, 2013, our financial condition and liquidity remained strong as cash and cash equivalents totaled \$10.8 million as compared to \$12.9 million at July 28, 2012. Our working capital increased from \$40.3 million at July 28, 2012 to \$44.5 million at August 3, 2013.

We currently have two lines of credit with a bank totaling \$6.75 million, all of which were fully available at August 3, 2013. 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 2014. The \$5.0 million line of credit, which also expires in January 2014, 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 fiscal 2014.

Net cash provided by operating activities for fiscal 2013 amounted to approximately \$1.7 million. Net earnings, as adjusted for depreciation, contributed approximately \$8.2 million of cash. The increase in accounts receivable used approximately \$3.6 million of cash as a result of the timing of collection related to heavier than normal fourth quarter sales. Inventory build-up for the fall selling season for our western/work boot unit and to support our new military boot contracts used approximately \$3.5 million of cash. The timing of payment for accounts payable, accrued employee benefits, accrued payroll and income tax payments provided approximately \$1.7 million of cash.

Net cash used in investing activities totaled approximately \$1.5 million. The investment in held-to-maturity securities used approximately \$1.0 million of cash. Capital expenditures primarily for manufacturing and warehouse equipment, expansion of the telephone system, and computer related expenditures used approximately \$900,000 of cash. Land sales provided approximately \$400,000 of cash.

Net cash used in financing activities totaled approximately \$2.2 million. Dividend payments totaled approximately \$2.1 million and company stock repurchases used approximately \$161,000 of cash.

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. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.

Contact:
D. Gary McRae
(910) 439-6147

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

	<u>August 3, 2013</u>	<u>July 28, 2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,804	\$ 12,874
Accounts and notes receivable, less allowances of \$1,521 and \$1,170, respectively	15,394	11,782
Inventories, net	23,046	19,572
Income tax receivable	0	209
Prepaid expenses and other current assets	482	395
Deferred tax assets	2,168	1,726
Total current assets	<u>51,894</u>	<u>46,558</u>
Property and equipment, net	<u>3,319</u>	<u>3,116</u>
Other assets:		
Long term securities	958	0
Real estate held for investment	3,626	3,673
Amount due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Total other assets	<u>9,696</u>	<u>8,785</u>
Total assets	<u><u>\$ 64,909</u></u>	<u><u>\$ 58,459</u></u>

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

	August 3, 2013	July 28, 2012
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,054	\$ 3,373
Accrued employee benefits	1,707	1,158
Accrued payroll and payroll taxes	1,209	1,003
Income tax payable	74	0
Other	399	746
Total current liabilities	7,443	6,280
Deferred tax liabilities	1,399	1,398
Total liabilities	8,842	7,678
Commitments and contingencies		
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares; issued and outstanding, 2,037,605 and 2,030,880 shares, respectively	2,038	2,031
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 392,919 and 408,376 shares, respectively	393	408
Retained earnings	53,636	48,342
Total shareholders' equity	56,067	50,781
Total liabilities and shareholders' equity	\$ 64,909	\$ 58,459

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

For Years Ended	August 3, 2013	July 28, 2012	July 30, 2011
Net revenues	\$ 97,071	\$ 75,684	\$ 74,748
Cost of revenues	67,539	52,329	54,027
Gross profit	29,532	23,355	20,721
Selling, general and administrative expenses	18,005	15,671	14,626
Operating profit	11,527	7,684	6,095
Other income	204	249	202
Interest expense	(2)	(1)	(1)
Earnings (loss) before income taxes	11,729	7,932	6,296
Provision for income taxes	4,231	3,090	2,467
Net earnings	\$ 7,498	\$ 4,842	\$ 3,829
Earnings per common share:			
Earnings per common share:			
Basic earnings per share:			
Class A	\$ 4.54	\$ 2.73	\$ 2.22
Class B	.77	0	0
Diluted earnings per share:			
Class A	3.79	2.27	1.84
Class B	NA	NA	NA
Weighted average number of common shares outstanding:			
Class A	2,035,034	2,038,902	2,053,042
Class B	399,878	414,853	423,697
Total	2,434,912	2,453,755	2,476,739

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

For Years Ended	August 3, 2013	July 28, 2012	July 30, 2011
Cash Flows from Operating Activities:			
Net earnings (loss)	\$ 7,498	\$ 4,842	\$ 3,829
Adjustments to reconcile net earnings(loss) to net cash provided by (used in) operating activities:			
Depreciation	686	640	629
Amortization of bond premiums	11	0	0
Loss on sale of assets	(282)	45	(83)
Deferred income taxes	(441)	26	161
Changes in operating assets and liabilities:			
Accounts receivable, net	(3,612)	(801)	(510)
Inventories	(3,474)	(961)	(1,436)
Prepaid expenses and other current assets	(87)	(219)	(11)
Accounts payable	681	618	(821)
Accrued employee benefits	549	307	177
Accrued payroll and payroll taxes	206	(84)	(24)
Income taxes	283	68	267
Other	(347)	(9)	56
Net cash provided by operating activities	1,671	4,472	2,234
Cash Flows from Investing Activities:			
Proceeds from sale of assets	390	8	126
Proceeds from maturing bond	75	0	0
Purchase of land for investment	(59)	(23)	(258)
Capital expenditures	(891)	(767)	(822)
Purchase of securities	(1,044)	0	0
Net cash used in investing activities	(1,529)	(782)	(954)
Cash Flows from Financing Activities:			
Purchase of common stock	(161)	(356)	(215)
Issuance of common stock	5	0	0
Dividends paid	(2,056)	(734)	(739)
Net cash provided by financing activities	(2,212)	(1,090)	(954)
Net (Decrease) Increase in Cash and Cash equivalents	(2,070)	2,600	326
Cash and Cash Equivalents at Beginning of Year	12,874	10,274	9,948
Cash and Cash Equivalents at End of Year	\$ 10,804	\$ 12,874	\$ 10,274