

McRAE INDUSTRIES, INC. REPORTS EARNINGS FOR THE FIRST QUARTER OF FISCAL 2012

Mount Gilead, N.C. – December 15, 2011. McRae Industries, Inc. (Pink Sheets: MRINA and MRINB) reported consolidated net revenues for the first quarter of fiscal 2012 of \$20,195,000 as compared to \$19,740,000 for the first quarter of fiscal 2011. Net earnings for the first quarter of fiscal 2012 amounted to \$1,379,000, or \$.63 per diluted Class A common share as compared to net earnings of \$1,281,000, or \$.59 per diluted Class A common share, for the first quarter of fiscal 2011.

FIRST QUARTER FISCAL 2012 COMPARED TO FIRST QUARTER FISCAL 2011

Consolidated net revenues totaled \$20.2 million for the first quarter of fiscal 2012 as compared to \$19.7 million for the first quarter of fiscal 2011. Sales related to our western/lifestyle boot products grew nearly 12.6%, up from \$12.5 million for the first quarter of fiscal 2011 to \$14.1 million for the first quarter of fiscal 2012, as demand for these products remained strong. Revenues from our work boot products fell approximately 14.2%, from \$7.1 million for the first quarter of fiscal 2011 to \$6.1 million for the first quarter of fiscal 2012, primarily the result of continued economic weakness in the construction industry and reduced military boot requirements for the U. S. Government. We believe that these market attributes will continue for the foreseeable future.

Consolidated gross profit for the first quarter of fiscal 2012 amounted to approximately \$6.4 million as compared to \$6.2 million for the first quarter of fiscal 2011. The growth in gross profit was primarily attributable to the increase in net revenues.

Consolidated selling, general and administrative ("SG&A") expenses totaled approximately \$4.2 million for the first quarter of fiscal 2012 as compared to \$4.1 million for the first quarter of fiscal 2011. This slight increase in SG&A expenses resulted primarily from increased expenditures for sales related compensation, office and warehouse rentals and employee benefit costs that were partially offset by reduced expenditures for travel, sales promotion and administrative salaries.

As a result of the above, the consolidated operating profit for the first quarter of fiscal 2012 amounted to \$2.2 million as compared to \$2.1 million for the first quarter of fiscal 2011.

Financial Condition and Liquidity

Our financial condition remained strong at October 29, 2011 as cash and cash equivalents totaled \$8.7 million as compared to \$10.3 million at July 30, 2011. Our working capital amounted to \$36.5 million at October 29, 2011 as compared to \$32.8 million at July 30, 2011.

We currently have two lines of credit with a bank totaling \$6.75 million, all of which was fully available at October 29, 2011. 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 2012. The \$5.0 million line of credit, which expires in March 2012, 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 2012.

Net cash used by operating activities for the first quarter of fiscal 2012 amounted to \$1.3 million. Net earnings, as adjusted for depreciation, contributed approximately \$1.5 million of cash. Accounts and notes receivable used approximately \$4.2 million of cash as strong first quarter sales, primarily attributable to the western and work boot business, outpaced customer payments. Decreased inventory levels, primarily in our western/ work boot business, provided approximately \$100,000 of cash. The timing of payments for inventory purchases and employee benefits provided approximately \$900,000 of cash. The payment of accrued sales commissions used approximately \$400,000 of cash. The timing of income tax payments provided approximately \$851,000 of cash.

Net cash used by investing activities totaled approximately \$60,000, primarily for manufacturing, office and computer equipment.

Net cash used in financing activities totaled \$184,000, which was 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.

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

	October 29, 2011	July 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,706	\$ 10,274
Accounts and notes receivable, net	15,204	10,981
Inventories, net	18,506	18,611
Income tax receivable	0	631
Prepaid expenses and other current assets	307	176
Total current assets	<u>42,723</u>	<u>40,673</u>
Property and equipment, net	<u>2,955</u>	<u>3,042</u>
Other assets:		
Real estate held for investment	3,650	3,650
Amount due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Total other assets	<u>8,762</u>	<u>8,762</u>
Total assets	<u>\$54,440</u>	<u>\$52,477</u>

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

	<u>October 29, 2011</u>	<u>July 30, 2011</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,299	\$ 2,755
Accrued employee benefits	1,182	851
Accrued payroll and payroll taxes	724	1,087
Accrued income tax	192	0
Other accrued liabilities	<u>819</u>	<u>755</u>
Total current liabilities	<u>6,216</u>	<u>5,448</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par; Authorized 5,000,000 shares; Issued and outstanding, 2,047,746 shares and 2,046,337 shares, respectively	2,048	2,046
Class B, \$1 par; Authorized 2,500,000 shares; Issued and outstanding, 419,184 shares and 420,593 shares, respectively	419	421
Retained earnings	<u>45,757</u>	<u>44,562</u>
Total shareholders' equity	<u>48,224</u>	<u>47,029</u>
Total liabilities and shareholders' equity	<u><u>\$54,440</u></u>	<u><u>\$52,477</u></u>

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

	Three Months Ended October 29, 2011	October 30, 2010
Net revenues	\$20,195	\$19,740
Cost of revenues	13,799	13,584
Gross profit	<u>6,396</u>	<u>6,156</u>
Costs and expenses:		
Selling, general and administrative expenses	4,178	4,062
Other expense (income), net	(43)	(36)
Interest expense	<u>0</u>	<u>0</u>
Total costs and expenses	<u>4,135</u>	<u>4,026</u>
Earnings before income taxes	2,261	2,130
Provision for income taxes	<u>882</u>	<u>849</u>
Net earnings	<u><u>\$1,379</u></u>	<u><u>\$1,281</u></u>
Earnings per common share:		
Basic earnings per share:		
Class A	\$.76	\$.71
Class B	0	0
Diluted earnings per share:		
Class A	.63	.59
Class B	NA	NA
Weighted average number of common shares outstanding:		
Class A	2,047,460	2,055,690
Class B	419,470	427,571
Total	<u>2,466,930</u>	<u>2,483,261</u>

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

	Three Months Ended October 29, 2011	October 30, 2010
Net cash used in by operating activities	<u>\$ (1,324)</u>	<u>\$ (2,801)</u>
Cash flows from investing activities:		
Proceeds from sales of assets	1	2
Land improvements	0	(171)
Capital expenditures	<u>(61)</u>	<u>(48)</u>
Net cash used in by investing activities	<u>(60)</u>	<u>(217)</u>
Cash flows from financing activities:		
Dividends paid	<u>(184)</u>	<u>(185)</u>
Net cash used in financing activities	<u>(184)</u>	<u>(185)</u>
Net decrease in cash and cash equivalents	(1,568)	(3,203)
Cash and cash equivalents at beginning of period	<u>10,274</u>	<u>9,948</u>
Cash and cash equivalents at end of period	<u><u>\$ 8,706</u></u>	<u><u>\$ 6,745</u></u>