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Agnew-Surpass

SHOE STORES LIMITED

BRANTFORD — ONTARIO

A CORPORATE DIVISION OF

GENESCO  Everything to Wear

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THIRTY-SEVENTH
ANNUAL REPORT
FOR THE YEAR ENDED
MAY TWENTY-EIGHTH
1965

DIRECTORS' REPORT

to the shareholders of
AGNEW-SURPASS SHOE STORES, LIMITED

Your directors are pleased to submit the thirty-seventh annual report of the company and its wholly-owned subsidiary, consisting of consolidated balance sheet, statement of consolidated earnings and retained earnings for the fiscal year ended May 28, 1965, and comparison with the preceding year.

The consolidated sales and net earnings for this year are the highest in the company's history. Consolidated net earnings after provision for taxes on income amounted to \$2.26 per share on the common stock, compared with \$2.06 per share for the preceding year.

Depreciation and amortization on fixed assets has been charged on the company's books on the same basis as in prior years.

Current assets at the end of the fiscal year were \$7,463,692 and current liabilities were \$1,672,807 resulting in a net working capital of \$5,790,885, an increase of \$507,521 over that of the previous year, as summarized below:

Funds provided:

From operations		
Net earnings		\$ 909,976
Add charges not requiring an outlay of cash:		
Depreciation	\$ 156,949	
Amortization of improvements to leased properties	24,568	
Deferred income taxes	43,500	
	<u>225,017</u>	
Less profit on disposal of fixed assets	1,499	223,518
		<u>1,133,494</u>
Insurance reserve not required		25,818
		<u>1,159,312</u>
Funds applied:		
Purchase of fixed assets, net		651,791
		<u>507,521</u>
Addition to working capital		5,283,364
Working capital at May 31, 1964		<u>5,283,364</u>
		<u>\$ 5,790,885</u>

Under the profit sharing plan which was inaugurated eleven years ago, together with employees' bonuses, the employees will participate in the distribution of \$147,328.00 of the year's profits.

Three new stores were opened during the year located at Sydney River, N.S., Calgary and Medicine Hat, Alberta. New stores were opened also in Windsor, N.S., and Lindsay, Ontario, replacing former locations. Stores at Barrie, Ontario, and Newtonbrook Shopping Centre, Toronto, Ontario, were destroyed by fire during the year, and two other locations were closed when the leases expired.

At a meeting of the Directors, held on May 25, 1965, By-Law Number 43 of the company was passed, being a by-law to change the fiscal year of the company from May 31 to the last Friday in May each year.

Construction of our new head office and warehouse building at 298 Park Road North, Brantford, Ontario, has been completed, and your company has occupied the building since January, 1965. The new warehousing facilities are the most modern in the shoe business in Canada. The building was constructed under the "designated area" income tax legislation which permits the company to take the benefit of accelerated depreciation rates for tax purposes on the building.

The Directors wish to express to all employees sincere appreciation for their loyalty, team work and performance during the past year.

The accounts and records of the company have been audited by Peat, Marwick, Mitchell & Co., Chartered Accountants, and their report is presented herewith.

On behalf of the Board,
K. R. GILLELAN,
President.

Brantford, Ontario,
July 20, 1965.

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY
THE JOHN RITCHIE COMPANY, LIMITED

Consolidated Balance Sheet as at May 28, 1965

with comparative figures for 1964

ASSETS	1965	1964	Increase (Decrease)
Current assets:			
Cash	\$ 499,429	1,005,696	(506,267)
Accounts and bills receivable, less allowance for doubtful accounts, 1965, \$35,671; 1964, \$33,799	640,829	569,058	71,771
Demand notes due from an affiliated company	1,300,000	500,000	800,000
Inventories, at the lower of cost or net realizable value (note 2)	4,985,778	5,135,855	(150,077)
Prepaid expenses	37,656	51,861	(14,205)
Total current assets	7,463,692	7,262,470	201,222
Fixed assets, less depreciation and amortization (note 3):			
Buildings, machinery, furniture, fixtures and improvements to leased properties	3,706,960	3,150,193	556,767
Less accumulated depreciation and amortization	2,423,052	2,303,503	119,549
Lasts, dies and patterns	1,283,908	846,690	437,218
Land	33,000	33,000	—
Land	103,990	69,435	34,555
Total fixed assets	1,420,898	949,125	471,773
	\$ 8,884,590	8,211,595	672,995
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,196,567	1,351,465	(154,898)
Due to parent and affiliated companies	33,030	—	33,030
Income taxes payable	322,012	514,141	(192,129)
Other taxes payable	121,198	113,500	7,698
Total current liabilities	1,672,807	1,979,106	(306,299)
Deferred tax credit (note 4)	43,500	—	43,500
Shareholders' equity:			
5½% cumulative preferred shares of \$10 each, redeemable at par. Authorized 10,984 shares.			
Common shares of no par value. Authorized 600,000 shares; issued 402,944 shares	957,656	957,656	—
Retained earnings	6,210,627	5,274,833	935,794
Total shareholders' equity	7,168,283	6,232,489	935,794
Commitments and contingent liabilities (note 5)			
	\$ 8,884,590	8,211,595	672,995

Approved on behalf of the Board:

K. R. GILLELAN, Director,
D. W. GREGORY, Director.

See accompanying notes to consolidated financial statements.

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY
THE JOHN RITCHIE COMPANY, LIMITED

STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS

Fiscal year ended May 28, 1965
with comparative figures for 1964

	1965	1964	Increase (Decrease)
NET SALES	\$ 18,890,272	17,870,125	1,020,147
Deduct:			
Cost of goods sold, selling, warehousing, general and administrative expenses	16,748,240	15,840,851	907,389
Remuneration of executive officers and directors ..	252,611	249,415	3,196
Legal fees	2,341	2,001	340
Depreciation	156,949	146,794	10,155
Amortization of improvements to leased properties ..	24,568	26,594	(2,026)
	<u>17,184,709</u>	<u>16,265,655</u>	<u>919,054</u>
Earnings from operations	1,705,563	1,604,470	101,093
Other income:			
Interest earned:			
From affiliated companies	52,443	28,813	23,630
Other	8,272	12,014	(3,742)
	<u>60,715</u>	<u>40,827</u>	<u>19,888</u>
Cash discounts earned	61,199	68,344	(7,145)
Profit on disposal of fixed assets	1,499	—	1,499
	<u>123,413</u>	<u>109,171</u>	<u>14,242</u>
Earnings before taxes on income	1,828,976	1,713,641	115,335
Taxes on income:			
Taxes payable for the year	875,500	884,218	(8,718)
Deferred (note 4)	43,500	—	43,500
	<u>919,000</u>	<u>884,218</u>	<u>34,782</u>
Net earnings	909,976	829,423	80,553
Retained earnings at beginning of fiscal year	5,274,833	4,445,410	829,423
Insurance reserve not required	25,818	—	25,818
	<u>6,210,627</u>	<u>5,274,833</u>	<u>935,794</u>

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT to the shareholders of AGNEW-SURPASS SHOE STORES, LIMITED.

We have examined the consolidated balance sheet of Agnew-Surpass Shoe Stores, Limited and its wholly-owned subsidiary, The John Ritchie Company, Limited, as of May 28, 1965 and the statement of consolidated earnings and retained earnings for the fiscal year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies at May 28, 1965 and the results of their operations for the fiscal year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Ontario,
July 9, 1965.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants.

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY
THE JOHN RITCHIE COMPANY, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 28, 1965

1. Principles of consolidation:

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, The John Ritchie Company, Limited and the accounts of two inactive subsidiaries of The John Ritchie Company, Limited. Inter-company transactions have been eliminated on consolidation.

2. Inventories:

The inventories are made up as follows:

	1965	1964
Finished goods	\$ 4,665,627	4,804,858
Work in process	46,300	33,890
Raw materials	273,851	297,107
	<u>\$ 4,985,778</u>	<u>5,135,855</u>

3. Fixed assets:

The fixed assets are stated as follows:

At cost:

Improvements to leased properties	\$ 690,646	693,433
At cost, less proceeds of disposals:		
Buildings	522,253	84,663
Furniture and fixtures	1,852,628	1,747,007

At depreciated values as appraised by
Canadian Appraisal Company, Limited in
1928, with subsequent additions at cost:

Buildings	225,535	225,535
Plant and machinery	325,865	316,084
Furniture and fixtures	90,033	83,471

3,706,960 3,150,193

Lasts, dies and patterns, at nominal value

	33,000	33,000
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Land:

At cost	36,720	2,165
As appraised by Canadian Appraisal Company, Limited in 1928	67,270	67,270

\$ 3,843,950 3,252,628

4. Taxes on income:

Deferred taxes on income of \$43,500 in the statement of consolidated earnings and retained earnings result from claiming for tax purposes an amount greater than the depreciation recorded in the accounts. This amount is included in "Deferred tax credit" in the balance sheet and is applicable to future periods in which amounts claimed for depreciation for tax purposes may be less than amounts recorded in the accounts.

5. Commitments and contingent liabilities:


The company operates at a number of locations under long-term leasing arrangements some of which have rental escalator clauses based on sales. The minimum annual rentals on all real property now leased for terms expiring more than five years from May 28, 1965 are approximately \$580,000.

The company is a co-defendant in a lawsuit for property damages arising out of a fire, totalling \$2,500,000, which is being defended by the company's insurers. It is the opinion of counsel and company officials that no personal liability will devolve upon the company.



HEAD OFFICE - BRANTFORD, ONTARIO

A Corporate Division of

GENESCO  Everything to Wear

DIRECTORS

W. M. BLACKIE
Nashville, Tennessee, U.S.A.

J. L. EDMONDSON
Brantford, Ontario

H. H. GIBAUT
Quebec City, Quebec

K. R. GILLELAN
Brantford, Ontario

DAN W. GREGORY
Preston, Ontario

J. B. HOOVER
Saint John, New Brunswick

W. D. MUIR, B.Comm.
Quebec City, Quebec

R. F. WHITBY
Brantford, Ontario

J. C. WHITE, B.Comm., C.A.
Brantford, Ontario

OFFICERS

K. R. GILLELAN
President and General Manager

J. L. EDMONDSON
Vice-President

H. H. GIBAUT
Vice-President

DAN W. GREGORY
Vice-President

R. F. WHITBY
Vice-President

J. C. WHITE, B.Comm., C.A.
Secretary-Treasurer

REGISTRAR and TRANSFER AGENTS

NATIONAL TRUST COMPANY LIMITED

BANKERS

BANK OF NOVA SCOTIA

AUDITORS

PEAT, MARWICK, MITCHELL & Co.
Chartered Accountants