C.

Agnew-Surpass

SHOE STORES, LIMITED

BRANTFORD — ONTARIO

A CORPORATE DIVISION OF

GENESCO

FORTY - SECOND

ANNUAL REPORT

FOR THE YEAR ENDED

MAY TWENTY-NINE

1970

PRESIDENT'S REPORT

Fiscal 1970 has been the most successful year to date for Agnew-Surpass Shoe Stores, Limited.

Despite successive annual decreases in sales and profits experienced by the manufacturing division of our subsidiary company, the retail division of the Company has continued to attain higher levels of sales and improved productivity, resulting in higher earnings per share to a new high this year of $3.02 per share.

The consolidated sales for the year are $22,377,985 and consolidated net earnings after provision for taxes on income are $1,215,716.

Six new stores were opened during the year and five existing stores were closed. There were 181 stores in operation at May 29, 1970 and the average volume per store unit was increased during the year to the highest on record.

Since embarking on the program of dramatic new store design just over two years ago, we have found these impressive new concepts in store environment to be highly successful. We are continuing to develop still more exciting fashion oriented stores as demanded by today's fashion forces in order to catch the ever roving customer's eye of the '70s.

The newest of these recently opened in the Brampton Shoppers Mall and in late July another will open in Midtown Plaza, Saskatoon, Saskatchewan. Nearing completion for opening in early August is the exciting Fairview Mall, Ontario's first two-level shopping complex, and early next spring will be the much talked about Sherway Gardens at the junction of Highway 27 and the Queen Elizabeth Way, both in Toronto.

It is noteworthy that this progress in the development of the Company has been achieved in spite of the disturbing trends that have developed in our general economy over the past year.

Our employee profit sharing plan which was inaugurated in the retail division of the Company 15 years ago has again increased and the employees will participate in $178,488 of the year's profit, compared with $165,103 last year. Provision for this has been made in the attached financial statements.

I wish to express special thanks from management for the excellent contribution made by all employees and for the loyal support of our customers and suppliers in this record breaking year.

Depreciation and amortization on fixed assets have been charged on the Companies' books on the same basis as in prior years and the balance sheet continues to reflect a strong financial position.

Your management is continuing the practice of retaining the earnings in the business, as retained earnings have provided the capital that has been so essential for the continued expansion of our operations, which in turn has improved our financial strength.

The Quebec City plant of your wholly-owned subsidiary The John Ritchie Company, Limited was sold on June 30, 1970 to Chartered Traders Limited. Further details of this transaction are included in note 2 in the attached financial statements.

On May 1, 1970 the Company purchased for cash at their par value an additional 10,000 6% convertible redeemable preference shares of the par value of $100 each in the stock of J. A. Johnston Company Limited. Such shares are convertible into common shares of the capital stoek of J. A. Johnston Company Limited at any time at the option of the holder thereof on the basis of four fully-paid common shares for each preference share presented for conversion. J. A. Johnston Company Limited is a wholly-owned subsidiary of Genesco, Inc.

The accounts and records of the Company and its wholly-owned subsidiary have been audited by Peat, Marwick, Mitchell & Co., Chartered Accountants, and tbeir report is presented herewith.

Brantford, Ontario
July 17, 1970

ROBERT F. WHITBY,
President.

DIRECTORS

P. S. CALVESBERT Brantford, Ontario	DAN W. GREGORY Preston, Ontario	J. W. TURNER Brantford, Ontario
J. L. EDMONDSON Brantford, Ontario	W. C. O'CONNOR Nashville, Tennessee, U.S.A.	R. F. WHITBY Brantford, Ontario
K. R. GILLELAN Brantford, Ontario	S. J. RUTHERFORD Kitchener, Ontario	J. C. WHITE, B.Comm., C.A. Brantford, Ontario

OFFICERS

R. F. WHITBY
President and General Manager

J. L. EDMONDSON Vice-President	DAN W. GREGORY Vice-President	J. C. WHITE, B.Comm., C.A. Vice-President and Secretary-Treasurer

REGISTRAR and TRANSFER AGENTS
NATIONAL TRUST COMPANY LIMITED

BANKERS
BANK OF NOVA SCOTIA
TORONTO-DOMINION BANK

AUDITORS
PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY

THE JOHN RITCHIE COMPANY, LIMITED

CONSOLIDATED BALANCE SHEET AT MAY 29, 1970

with comparative figures for 1969

ASSETS	1970	1969	Increase (Decrease)
Current assets:			
Cash	$ 844,411	431,859	412,552
Short term investments, at cost	1,548,436	1,249,077	299,359
Funds held by an affiliate for the benefit of the subsidiary	—	594,309	(594,309)
Accounts receivable, less allowance for doubtful accounts, 1970, $23,862; 1969, $23,291	396,347	429,149	(32,802)
Inventories, at the lower of cost or net realizable value (note 1)	5,260,441	5,510,544	(250,103)
Prepaid expenses	48,974	72,749	(23,775)
Total current assets	8,098,609	8,287,687	(189,078)
Special refundable tax	—	17,609	(17,609)
Investment in preference shares of an affiliated company, at cost	4,500,000	3,500,000	1,000,000
Fixed assets, less depreciation and amortization (note 2):			
Buildings, machinery, furniture, fixtures and improvements to leased properties	4,325,891	4,235,070	90,821
Less accumulated depreciation and amortization	3,041,939	2,989,602	52,337
	1,283,952	1,245,468	38,484
Land	102,170	102,170	—
	1,386,122	1,347,638	38,484
	$13,984,731	13,152,934	831,797

LIABILITIES AND SHAREHOLDERS' EQUITY	1970	1969	Increase (Decrease)
Current liabilities:			
Accounts payable and accrued expenses	$ 1,072,853	1,188,621	(115,768)
Accounts payable, parent and affiliated companies	306,793	685,533	(378,740)
Income taxes payable	194,979	111,899	83,080
Other taxes payable	180,536	169,227	11,309
Total current liabilities	1,755,161	2,155,280	(400,119)
Deferred taxes on income	134,100	117,900	16,200
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	11,137,814	9,922,098	1,215,716
	12,095,470	10,879,754	1,215,716
Commitments and contingent liabilities (note 3)			
	$13,984,731	13,152,934	831,797

See accompanying notes to consolidated financial statements.

On behalf of the Board:
R. F. WHITBY, Director
D. W. GREGORY, Director

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY

THE JOHN RITCHIE COMPANY, LIMITED

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Fiscal year ended May 29, 1970
with comparative figures for 1969

	1970	1969	Increase (Decrease)
NET SALES	$22,377,985	22,905,371	(527,386)
Deduct:			
Cost of goods sold, selling, warehousing, general and administrative expenses	20,005,880	20,669,248	(663,368)
Direct remuneration of directors and senior officers of which $179,370 (1969 - $167,727) was received by directors who are also senior officers	210,823	199,851	10,972
Depreciation	216,166	249,733	(33,567)
Amortization of improvements to leased properties	25,836	24,786	1,050
	20,458,705	21,143,618	(684,913)
Earnings from operations	1,919,280	1,761,753	157,527
Other income (net):			
Interest earned (net):			
From affiliated company	97,170	—	97,170
Other	143,269	87,797	55,472
	240,439	87,797	152,642
Less paid to affiliated company	72,408	—	72,408
	168,031	87,797	80,234
Dividends from affiliated company	210,000	159,801	50,199
Discounts earned	30,672	34,291	(3,619)
	408,703	281,889	126,814
Earnings before taxes on income	2,327,983	2,043,642	284,341
Taxes on income	1,112,267	987,694	124,573
Net earnings	1,215,716	1,055,948	159,768
Retained earnings at beginning of fiscal year	9,922,098	8,866,150	1,055,948
Retained earnings at end of fiscal year	$11,137,814	9,922,098	1,215,716
Earnings per share	$ 3.02	2.62	.40

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT to the shareholders 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 29, 1970 and the consolidated statements of earnings and retained earnings and source and application of funds for the fiscal year then ended. 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, these consolidated financial statements present fairly the financial position of the company and its subsidiary at May 29, 1970 and the results of their operations and the source and application of their funds for the fiscal year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Ontario
July 10, 1970

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 29, 1970

1. Inventories:

	1970	1969
The inventories are made up as follows:		
Finished goods	$5,034,453	5,151,042
Work in process	25,615	43,257
Raw materials	200,373	316,245
	$5,260,441	5,510,544

2. Fixed assets:

	1970	1969
The fixed assets are stated as follows:		
At cost:		
Buildings	$ 498,619	497,594
Improvements to leased properties	702,041	760,107
At cost, less proceeds of disposals:		
Furniture and fixtures	2,394,821	2,263,902
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	378,522	361,579
Furniture and fixtures	93,353	93,353
Lasts, dies and patterns, at nominal value	33,000	33,000
	4,325,891	4,235,070
Land:		
At cost	34,900	34,900
As appraised by Canadian Appraisal Company, Limited in 1928	67,270	67,270
	$4,428,061	4,337,240

The subsidiary company sold its manufacturing plant and facilities on June 30, 1970. The approximate loss on the sale is $120,000, net of applicable deferred taxes on income amounting to $25,000.

3. Commitments and contingent liabilities:

The companies operate at a number of retail store locations under long-term leasing arrangements. Certain of the leases provide for payment of real estate taxes, other expenses and additional rental based upon a percentage of sales in excess of stipulated minimums. The minimum annual rentals on all real property now leased for terms expiring more than five years from May 29, 1970 are approximately $625,000 maturing on various dates to September 30, 1989.

The liability for past service costs under the company's pension plan remaining to be accrued is approximately $282,000 at May 29, 1970 based on an actuarial study made as at August 1, 1969 when the pension plan commenced. This amount is being amortized in the amount of $22,468, including interest, annually to August 1, 1989.

The company is a co-defendant in various lawsuits, for property damages arising out of a fire, which are being defended by the company's insurers. The main action for $2,500,000 has been under reserve judgment for over one year and it is expected the other actions, which are for unstated damages, will be stayed pending its outcome. It is the opinion of counsel and company officials that no personal liability will devolve upon the company.

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY

THE JOHN RITCHIE COMPANY, LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Fiscal year ended May 29, 1970
with comparative figures for 1969

	1970	1969	Increase (Decrease)
Source of funds:			
From operations:			
Net earnings	$ 1,215,716	1,055,948	159,768
Add charges not requiring an outlay of cash:			
Depreciation and amortization	242,002	274,519	(32,517)
Deferred taxes on income	16,200	61,100	(44,900)
Funds provided from operations	1,473,918	1,391,567	82,351
Special refundable tax	17,609	28,888	(11,279)
Total funds provided	1,491,527	1,420,455	71,072
Application of funds:			
Investment in preference shares of an affiliated company	1,000,000	3,500,000	(2,500,000)
Purchase of fixed assets less proceeds of disposals	280,486	317,975	(37,489)
	1,280,486	3,817,975	(2,537,489)
Increase (decrease) in working capital	211,041	(2,397,520)	2,608,561
Working capital at beginning of year	6,132,407	8,529,927	(2,397,520)
Working capital at end of year	$ 6,343,448	6,132,407	211,041

See accompanying notes to consolidated financial statements.