Agnew-Surpass

SHOE STORES, LIMITED

BRANTFORD — ONTARIO

A CORPORATE DIVISION OF

GENESCO

FORTY - THIRD

ANNUAL REPORT

m FOR THE YEAR ENDED

MAY TWENTY-EIGHT

1971

PRESIDENT'S REPORT

For our 43rd Annual Report, it is again a pleasure to announce another successful and record year for the 12 months ended May 28th, 1971.

The retail division of the Company has achieved this year, the highest level of sales and earnings in its 43-year history.

While the sale of the Quebec City manufacturing facility of our subsidiary company resulted in a major sales decrease for them during the year, the operating losses sustained in previous years by the manufacturing division of the subsidiary company were sharply reduced.

The signs of a soft and slow economy were evident at the outset of the fiscal year and continued throughout the period. The need for greater efficiency became quite apparent in order to combat the inflationary trends, retailing in general, has had to face in the past.

The improvement obtained contributed to a greater productivity throughout the entire organization resulting in the outstanding success of the retail division and the satisfactory operating results of the subsidiary company which when combined, produced record earnings per share of $3.57 compared with our previous high last year of $3.02.

Six new stores were opened during the year and one was closed. We find the enthusiastic customer response given to and enjoyed by our new fashion-oriented stores to be most gratifying and further encourages us to develop shopping facilities of an even more stimulating and exciting nature in the future.

Eight new stores are being opened during the current year with a further group still under various stages of negotiation. All new locations are in spacious and fully enclosed shopping malls which seemingly supplies the animative environment looked for and expected by the shopping customer of the 70's.

Our employee profit-sharing plan which was inaugurated in the retail division of the Company 16 years ago has again increased and the employees will participate in $207,724 of the year's profit, compared with $178,488 last year. Provision for this has been made in the attached financial statements.

The significant record of the past year was due in large measure to the performance and dedication of the employees whose achievements demonstrate the Company's ability to meet the challenges of the retailing industry, even under adverse economic conditions.

At a Director's Meeting of Agnew-Surpass Shoe Stores, Limited held on June 10, 1971 the retirement of Jack L. Edmondson, Vice President and Administrative Buyer, was announced, under the terms of the Genesco Retirement Policy, after a distinguished career of 47 years in the service of the Company and the footwear industry.

At the same meeting the following executive appointments were made:

Perc. S. Calvesbert—Vice President, Operations
Reg. M. MacDonald—Vice President, Buying
John W. Turner—Vice President, Buying

Both the retirement and appointments will be effective August 1, 1971.

I wish to express special appreciation from Management to all Employees, our salient customers and loyal suppliers, for their continued and valued support.

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.

On March 22, 1971 we were advised by the Toronto Stock Exchange that under their new policy effective April 1, 1971, the public distribution of our common shares did not meet their minimum listing standards. We consented to the delisting of the common shares by the Toronto Stock Exchange on the basis of lack of sufficient public distribution of the shares. Accordingly our Shareholders were advised of this by letter on May 4, 1971, and the shares were delisted on May 21, 1971.

The John Ritchie Company Limited continues to operate its wholesale sales division and is expanding its sales of domestically-produced and imported footwear, although the Quebec City manufacturing facility was sold on June 30, 1970 to Chartered Traders Limited.

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

Brantford, Ontario
July 26, 1971

ROBERT F. WHITBY,
President.

DIRECTORS

P. S. CALVESBERT
Brantford, Ontario

J. L. EDMONDSON
Brantford, Ontario

K. R. GILLELAN
Brantford, Ontario

DAN W. GREGORY
Preston, Ontario

W. C. O'CONNOR
Nashville, Tennessee, U.S.A.

S. J. RUTHERFORD
Kitchener, Ontario

J. W. TURNER
Brantford, Ontario

R. F. WHITBY
Brantford, Ontario

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

OFFICERS

R. F. WHITBY
President and General Manager

J. L. EDMONDSON
Vice-President - Buying

P. S. CALVESBERT
Vice-President - Operations

DAN W. GREGORY
Vice-President

R. M. MacDONALD
Vice-President - Buying

J. C. WHITE, B.Comm., C.A.
Vice-President and Secretary-Treasurer

J. W. TURNER
Vice-President - Buying

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

May 28, 1971

with comparative figures for 1970

ASSETS	1971	1970
Current assets:		
Cash	$ 973,679	844,411
Investment in short term notes, at cost	2,945,769	1,548,436
Accounts receivable, less allowance for doubtful accounts, 1971, $27,059; 1970, $23,862	351,600	396,347
Inventories, at the lower of cost or net realizable value (note 1)	5,154,298	5,260,441
Prepaid expenses	67,353	48,974
Total current assets	9,492,699	8,098,609
Investment in preference shares of an affiliated company, at cost	4,500,000	4,500,000
Fixed assets, less accumulated depreciation and amortization (note 2):		
Buildings, machinery, furniture, fixtures and improvements to leased properties	3,856,035	4,325,891
Less accumulated depreciation and amortization	2,531,329	3,041,939
	1,324,706	1,283,952
Land	34,900	102,170
	1,359,606	1,386,122
	$15,352,305	13,984,731

LIABILITIES AND SHAREHOLDERS' EQUITY	1971	1970
Current liabilities:		
Accounts payable and accrued expenses	$ 1,041,061	1,072,853
Accounts payable, parent and affiliated companies	164,109	306,793
Income taxes payable	256,042	194,979
Other taxes payable	183,375	180,536
Total current liabilities	1,644,587	1,755,161
Deferred taxes on income	174,650	134,100
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	12,575,412	11,137,814
	13,533,068	12,095,470
Commitments and contingent liabilities (note 3)		
	$15,352,305	13,984,731

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 28, 1971

with comparative figures for 1970

	1971	1970
NET SALES	$22,438,833	22,377,985
Deduct:		
Cost of goods sold, selling, warehousing, general and administrative expenses	19,685,278	20,216,703
Depreciation	176,860	216,166
Amortization of improvements to leased properties	38,855	25,836
	19,900,993	20,458,705
Earnings from operations	2,537,840	1,919,280
Other income (net):		
Interest earned (net):		
From affiliated company	—	97,170
Other	125,470	143,269
	125,470	240,439
Less paid to affiliated company	5,145	72,408
	120,325	168,031
Dividends from affiliated company	270,000	210,000
Discounts earned	21,864	30,672
	412,189	408,703
Earnings before taxes on income and extraordinary item	2,950,029	2,327,983
Taxes on income:		
Current	1,321,075	1,096,067
Deferred	84,000	16,200
	1,405,075	1,112,267
Earnings before extraordinary item	1,544,954	1,215,716
Extraordinary loss on sale of manufacturing plant and facilities, net of applicable deferred taxes on income amounting to $43,450	107,356	—
Net earnings (note 4)	1,437,598	1,215,716
Retained earnings at beginning of fiscal year	11,137,814	9,922,098
Retained earnings at end of fiscal year	$12,575,412	11,137,814
Earnings per share:		
Before extraordinary item	$ 3.83	3.02
Net earnings	3.57	3.02

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 28, 1971 and the consolidated statements of earnings and retained earnings and souree and applieation 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 28, 1971 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 7, 1971

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, 1971

1. Inventories:

The inventories are made up as follows:	1971	1970
Finished goods	$5,154,298	5,034,453
Work in process	—	25,615
Raw materials	—	200,373
	$5,154,298	5,260,441

2. Fixed assets:

The fixed assets are stated as follows:	1971	1970
At cost:		
Buildings	$ 498,619	498,619
Improvements to leased properties	804,648	702,041
At cost, less proceeds of disposals:		
Furniture and fixtures	2,519,768	2,394,821
At depreciated values as appraised by Canadian Appraisal Company, Limited in 1928 with subsequent additions at cost:		
Buildings	—	225,535
Plant and machinery	—	378,522
Furniture and fixtures	—	93,353
Lasts, dies and patterns, at nominal value	33,000	33,000
	3,856,035	4,325,891
Land:		
At cost	34,900	34,900
As appraised by Canadian Appraisal Company, Limited in 1928	—	67,270
	$3,890,935	4,428,061

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 28, 1971 are approximately $614,000 maturing on various dates to August 31, 1989.

The liability for past service costs under the company's pension plan remaining to be accrued is approximately $104,000 at May 28, 1971 (1970, $282,000) based on an actuarial study made as of July 31, 1970. The decrease at May 28, 1971 is caused by a substantial change in actuarial assumptions since the previous actuarial study as of August 1, 1969. The amount of $104,000 is being amortized in the amount of $10,998, including interest, annually to August 1, 1989.

The company was a co-defendant in various lawsuits at May 29, 1970 for property damages and loss of rents arising out of a fire, which was defended by the company's insurers. The main action was for $2,500,000 but the plaintiff only presented claims of approximately $300,000 at the trial. The action was dismissed but is now being appealed against the company only. The other actions, which are for unstated damages, have been stayed pending the appeal. It is the opinion of counsel that the judgment under the appeal will not be varied and even if varied it will not exceed the insurance coverage. It is also the opinion of counsel that the other claims, if successful, will not increase the overall claims to exceed the insurance coverage.

4. The following amounts have been charged before determining net earnings:

Aggregate remuneration of directors and officers:	1971	1970
9 Directors as directors (1970, 9)	$ 2,400	2,100
4 Officers as officers (1970, 5) all of whom are also directors (1970, 4)	156,717	149,774
	$159,117	151,874

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 28, 1971

with comparative figures for 1970

	1971	1970
Source of funds:		
From operations:		
Net earnings	$1,437,598	1,215,716
Add charges not requiring an outlay of cash:		
Depreciation and amortization	215,715	242,002
Deferred taxes on income	84,000	16,200
Loss on sale of manufacturing plant and facilities, less legal expenses paid $4,701	102,655	—
Funds provided from operations	1,839,968	1,473,918
Special refundable tax	—	17,609
Total funds provided	1,839,968	1,491,527
Application of funds:		
Investment in preference shares of an affiliated company	—	1,000,000
Purchase of fixed assets less proceeds of disposals	335,304	280,486
	335,304	1,280,486
Increase in working capital	1,504,664	211,041
Working capital at beginning of year	6,343,448	6,132,407
Working capital at end of year	$7,848,112	6,343,448

See accompanying notes to consolidated financial statements.