C

Agnew-Surpass

SHOE STORES, LIMITED

BRANTFORD — ONTARIO

A CORPORATE DIVISION OF

GENESCO

FORTY - FIFTH

ANNUAL REPORT

FOR THE YEAR ENDED

JUNE ONE

1973

PRESIDENT'S REPORT

It is with a real sense of gratification that I report to you another record performance for the fiscal year ended June 1, 1973.

In this year of new accomplishments and developments we showed substantial growth in producing the highest sales volume and greatest net earnings in our 45 years in business.

This year we concentrated all our efforts on retail operations. Whereas last year our sales included substantial wholesale sales, this year our sales were all at the retail level, with consequent improvement in our net earnings.

The problem of rising costs in this inflationary environment is not confined to any one company or one type of business and our company has had to face this continuing condition in putting more emphasis on greater productivity and efficiency of operations.

Net earnings this year improved to a record $5.39 per share from last year's record of $4.53 per share.

Our retail market coverage was extended during the year by eight new family shoe stores that opened in enclosed Shopping Malls. We continued our plan of eliminating unprofitable store units by five closings during the year.

We expect to open eleven new store units during this current year. Our country's economic growth is creating many new population concentrations and, as real estate development is strong, we are negotiating to grasp many opportunities for new stores to reach those new markets, both with family shoe stores and with our new boutique stores for high-fashion men's and women's footwear.

Our employee profit-sharing plan which began eighteen years ago has again increased to a record high, and the employees will participate in $262,541.00 of the year's profit, compared with $225,832.00 last year. Provision for this has been made in the attached financial statements.

The outstanding results for this past year have been obtained through the competence, dedication and hard work of our employees, store managers, supervisors, and officers of our company. I should also like to pay special tribute to our many suppliers and manufacturers who under very trying circumstances and conditions supported us by their considerate and sincere co-operation.

At a Directors' meeting of Agnew-Surpass Shoe Stores, Limited held on May 29, 1973 Mr. W. C. O'Connor resigned as a Director and Mr. R. L. Holland was elected a Director to fill the vacancy on the Board. At this same meeting Mr. O'Connor was appointed Assistant Secretary.

The Board then accepted the retirement under the terms of the Genesco Retirement Policy of Mr. R. F. Whitby as President and General Manager and Director, to be effective August 1, 1973. The Board appointed Mr. R. L. Holland as President and General Manager and Mr. J. C. White as Chief Administrative Officer of the Company, and approved the creation of a Real Estate Committee of the Board, all to be effective August 1, 1973. Messrs. White, Holland, Calvesbert and Gregory were appointed to the Committee with Mr. White as Chairman.

Depreciation and amortization on fixed assets have been charged on the Company's books on the same basis as in prior years. Because of the earnings retained in the business, the balance sheet continues to show improvement and outstanding financial strength. It provides capital for the projected long term expansion of our retail operations in shopping centres that are being planned with the many real estate developers in this country.

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 19, 1973

R. F. WHITBY
President and General Manager

DIRECTORS

P. S. CALVESBERT
Brantford, Ontario

R. M. MacDONALD
Brantford, Ontario

J. W. TURNER
Brantford, Ontario

K. R. GILLELAN
Brantford, Ontario

R. L. HOLLAND
Brantford, Ontario

R. F. WHITBY
Brantford, Ontario

DAN W. GREGORY
Preston, Ontario

S. J. RUTHERFORD, C.A.
Kitchener, Ontario

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

OFFICERS

R. F. WHITBY
President and General Manager

DAN W. GREGORY
Vice-President

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

P. S. CALVESBERT
Vice-President - Operations

R. M. MacDONALD
Vice-President - Buying

J. W. TURNER
Vice-President - Buying

R. L. HOLLAND
Vice-President - Merchandising

BANKERS

BANK OF NOVA SCOTIA
TORONTO-DOMINION BANK

REGISTRAR and TRANSFER AGENTS

NATIONAL TRUST
COMPANY LIMITED

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

June 1, 1973

with comparative figures for 1972

ASSETS	1973	1972
Current assets:		
Cash	$ 4,236,382	1,078,726
Investment in short term notes, at cost	3,583,432	4,931,495
Accounts receivable	35,846	23,564
Inventory of finished goods, at the lower of cost or net realizable value	5,511,614	5,079,828
Prepaid expenses	62,297	52,406
Total current assets	13,429,571	11,166,019
Investment in 6% preference shares of an affiliated company, at cost	4,500,000	4,500,000
Property and equipment, less accumulated depreciation and amortization (note 1):		
Buildings, machinery, furniture, fixtures and improvements to leased properties	4,387,132	4,043,270
Less accumulated depreciation and amortization	2,901,215	2,722,651
	1,485,917	1,320,619
Land	34,900	34,900
Net property and equipment	1,520,817	1,355,519
	$19,450,388	17,021,538

LIABILITIES AND SHAREHOLDERS' EQUITY	1973	1972
Current liabilities:		
Accounts payable and accrued expenses	$ 1,204,455	951,065
Accounts payable, parent and affiliated companies	84,450	69,584
Income taxes payable	356,561	309,028
Other taxes payable	201,575	177,962
Total current liabilities	1,847,041	1,507,639
Deferred income taxes	158,180	156,580
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	16,573,522	14,399,663
	17,531,178	15,357,319
Less refundable taxes paid but not yet refundable (note 2)	86,011	—
Total shareholders' equity	17,445,167	15,357,319
Commitments and contingent liabilities (note 3)		
	$19,450,388	17,021,538

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 June 1, 1973

with comparative figures for 1972

	1973 (53 weeks)	1972 (52 weeks)
NET SALES	$23,654,138	22,651,060
Deduct:		
Cost of goods sold, selling, warehousing, general and administrative expenses	20,085,422	19,563,774
Depreciation	196,866	181,288
Amortization of improvements to leased properties	55,995	46,324
	20,338,283	19,791,386
Earnings from operations	3,315,855	2,859,674
Other income:		
Interest earned:		
From affiliated company	149,589	—
Other	143,671	159,894
	293,260	159,894
Dividends from affiliated company	270,000	270,000
Discounts earned	15,359	21,724
	578,619	451,618
Earnings before income taxes	3,894,474	3,311,292
Income taxes (note 2)	1,720,615	1,487,041
Net earnings (note 4)	2,173,859	1,824,251
Retained earnings at beginning of fiscal year	14,399,663	12,575,412
Retained earnings at end of fiscal year	$16,573,522	14,399,663
Earnings per share	$ 5.39	4.53

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 June 1, 1973 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 June 1, 1973 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, 1973

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

June 1, 1973 (with comparative figures for 1972)

1. Property and equipment:

The property and equipment are stated as follows:

	1973	1972
At cost:		
Buildings	$ 498,619	498,619
Improvements to leased properties	949,666	848,226
	1,448,285	1,346,845
Furniture and fixtures at cost less proceeds of disposals	2,938,847	2,696,425
	4,387,132	4,043,270
Land, at cost	34,900	34,900
	$4,422,032	4,078,170

2. Under the Income Tax Act the company is classified as a private corporation and therefore certain taxes paid relative to investment income are potentially refundable. Refunds of these taxes can normally be obtained at the rate of $1 for each $3 of taxable dividends paid. Since these taxes are potentially refundable they are not deducted in computing net earnings for the year. When some part of these taxes becomes definitely refundable because of dividend payments the appropriate amount is transferred to accounts receivable. Should the company cease to be classified as a private corporation the entitlement to refund would be lost.

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 June 1, 1973 are approximately $584,700 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 $293,000 at June 1, 1973 (1972; $258,000) based on an actuarial study made as of January 1, 1973. The increase at June 1, 1973 is caused by an experience loss related to increases in salary levels. The amount of $293,000 is being amortized in the amount of $36,192 annually to July 31, 1976, then $35,108 annually to December 31, 1977 and $22,241 annually thereafter to December 31, 1989. All of these annual payments include interest accruing at 5% per annum.

The company was the defendent in various lawsuits at May 28, 1971 for property damages and loss of rents arising out of a fire, which are being 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 as against the company and damages were not assessed. On appeal to the Court of Appeal for Ontario, the trial decision was reversed and the plaintiff was awarded judgment. The action is under appeal to the Supreme Court of Canada and counsel for the company's insurers are unable at this time to comment upon the final outcome. The other actions, which are for unstated damages, have been stayed pending the appeal. It is the opinion of management that the costs will be borne chiefly by the insurer.

A claim has been entered in the Supreme Court of Alberta against the company claiming, inter alia, special and general damages of approximately $132,500 plus costs. This action has reached the stage of Discovery, but has not yet been set down for Trial. It is the opinion of management that the claim will not be successful.

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

	1973 (53 weeks)	1972 (52 weeks)
Aggregate remuneration of directors and officers:		
9 Directors as directors (1972; 10)	$ 2,150	2,375
7 Officers as officers (1972; 7) all of whom are also directors (1972; 7)	248,563	214,327
	$ 250,713	216,702

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 June 1, 1973

with comparative figures for 1972

	1973 (53 weeks)	1972 (52 weeks)
Source of funds:		
From operations:		
Net earnings	$ 2,173,859	1,824,251
Add (deduct) items not requiring an outlay of cash:		
Depreciation and amortization	252,861	227,612
Deferred income taxes	1,600	(18,070)
Loss on disposal of lasts, dies and patterns	—	32,800
Total funds provided	2,428,320	2,066,593
Application of funds:		
Purchase of fixed assets less proceeds of disposals	418,159	256,325
Refundable taxes paid	86,011	—
Total application of funds	504,170	256,325
Increase in working capital	1,924,150	1,810,268
Working capital at beginning of fiscal year	9,658,380	7,848,112
Working capital at end of fiscal year	$11,582,530	9,658,380

See accompanying notes to consolidated financial statements.