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# Melville

Annual Report 1971

## Melville Shoe Corporation Annual Report 1971

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Annual Meeting of stockholders  
will be held at the Executive Offices in  
New York City on April 11, 1972



Melville's Operating Committee, shown above with President Francis C. Rooney, Jr., (center) consists of the heads of Melville's major operations and Mr. Rooney; Kenneth K. Berland, Financial Vice President and Treasurer; William E. Sperry, Vice President Corporate Development; Howard A. Brown, President, Melville Realty Company, and Francis H. Gleason, Chairman, J. F. McElwain Company.

The main working management group under Melville's system of integrated autonomy, the Operating Committee coordinates the operations of the divisions monitoring progress toward annual goals and serves as a clearing house for a continuing exchange of ideas among the divisions.

# Highlights

	1971	1970	Percent Change
Net Sales .....	<b>\$512,709,692</b>	\$438,131,318	+ 17.0
Earnings before Federal Income Taxes and Minority Interests . . .	<b>45,140,088</b>	36,754,486	+ 22.8
Net Earnings .....	<b>24,535,416</b>	20,818,587	+ 17.9
Dividends on Common Stock .....	<b>9,329,932</b>	8,653,922	+ 7.8
Net Earnings Per Share of Common Stock .....	<b>2.07</b>	1.77	+ 16.9
Dividends Per Share of Common Stock .....	<b>.80</b>	.75	+ 6.7
Net Earnings as a Percent of Net Sales .....	<b>4.79%</b>	4.75%	
Cash .....	<b>33,053,180</b>	11,134,894	+196.8
Inventories .....	<b>107,800,202</b>	92,246,145	+ 16.9
Net Working Capital .....	<b>98,094,012</b>	67,219,785	+ 45.9
Shareholders' Equity .....	<b>111,272,100</b>	94,962,205	+ 17.2
Average Common Shares, Outstanding .....	<b>11,662,174</b>	11,572,840	+ .8
Number of Stores .....	<b>2,174</b>	1,918	+ 13.3
Number of Employees .....	<b>15,000</b>	13,700	
Number of Shareholders: approximately 17,200			

# President's Letter

For the eighth consecutive year, Melville Shoe Corporation and subsidiaries achieved record sales and earnings in 1971 as total sales exceeded a half billion dollars for the first time, reaching a new high of \$512,709,692. This was a 17.0 percent rise over the 1970 total of \$438,131,318.

Earnings moved up to \$24,535,416, a 17.9 percent increase over the previous record, the 1970 total of \$20,818,587. Earnings per share were \$2.07, an increase of 16.9 percent over the 1970 figure of \$1.77 a share.

During the year, Melville opened 364 stores and closed 108, increasing the total number of units operating to 2,174 as of December 31, 1971.

Despite the failure of the economy to recover as rapidly as expected, 1971 was a good year for Melville.

With the exception of Miles, which is still in the process of being converted from a family to a women's specialty chain, all footwear divisions increased both sales and earnings for the year.

Thom McAn and Meldisco both did well. Bally/Vanguard, although small, exceeded its goals.

Consumer Value Stores (CVS), the health and beauty aid chain, and Foxmoor, the women's apparel stores, both enjoyed marked improvement in both sales and earnings compared to the previous year. Chess King, the young men's apparel division, continued to be profitable but not to the extent of its sales growth.

The Melville manufacturing division increased its high rate of productivity and its total output during the year. In supplying much of the footwear for our new and existing operations, McElwain contributes importantly to the overall growth of the corporation. The performance of the Miller shoe factory, acquired in 1970, was especially outstanding as the strong demand in Thom McAn stores for women's shoes produced by Miller brought its plant to capacity for the first time in a number of years.

Last April your Company opened the first of its new Melco self-service family shoe stores. Operating costs in these stores are reduced because customers serve themselves and take their purchases to a central cash register for wrapping and payment. With 11 Melco stores in operation at the end of 1971 and substantially more planned for 1972, Melco promises to contribute significantly to future growth.

In a move into still another, and higher, price bracket, Melville joined forces with the prestigious Swiss footwear manufacturer, C. F. Bally, Ltd., of Zurich to market Bally shoes in this country along with a selection of Vanguard

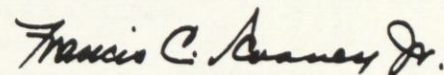
footwear in stores that will be called Bally. The stores will be 75% owned by Melville and 25% by C. F. Bally, Ltd.

The agreement with Bally, with its world-wide reputation for style and quality, emphasizes Melville's increasing involvement in international footwear operations. As a part of this program, the Company, in November 1971, formed a European buying organization, Melville (Europe) Purchasing, Ltd., with offices in Zurich, Florence and Majorca.

In the Fall of 1971, we initiated an experimental program of selling footwear by direct mail through Melcort, Inc., a new Melville wholly-owned subsidiary. Offering both Thom McAn and Melcort brand shoes, the test results of the program to date indicate a good potential for selling footwear to customers beyond the immediate reach of our stores.

On behalf of the Board of Directors, I want to thank the men and women of Melville for their contribution to our growth in the year 1971.

Assuming the promising upward trend in the economy forecast for 1972, the outlook for Melville would indicate continued progress in all areas of the Company's operations.



Francis C. Rooney, Jr.  
President and Chief Executive Officer

February 24, 1972

# Thom McAn

Thom McAn  
LAY AWAY  
Select Your BOOTS Now  
we'll reserve them for you  
\$300 DEPOSIT

Thom McAn  
YOUNG THINGS

CHILDREN'S  
DEPT.



# Thom McAn

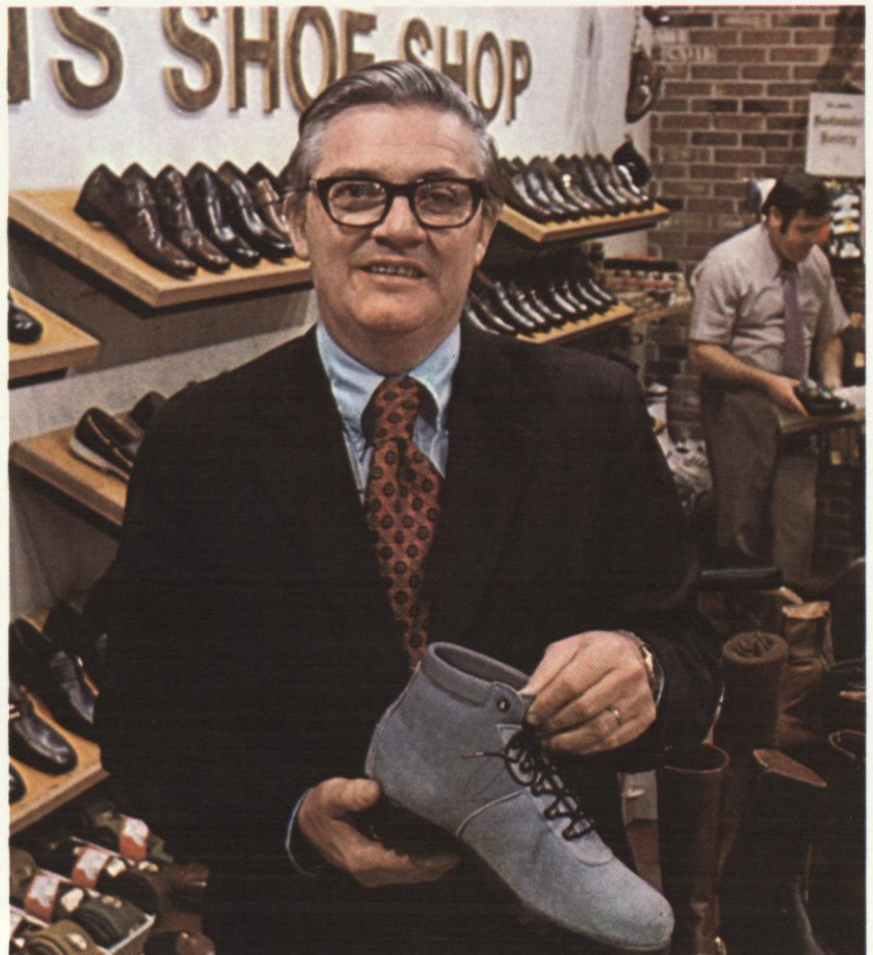
Thom McAn—world's best-selling men's shoes—further expanded its sales of Avila lined Roma II styles for men during the year; introduced a new line of colorful suede stitchdown "jean shoes" for both men and women and achieved a rapid expansion of its profitable sneaker business through the introduction and exploitation of "Stripers".

Suede wedgies and platform footwear for women, introduced exclusively in the popular-priced field by Thom McAn, were enthusiastically received by customers, as were high-heel shoes for men. Thom McAn Safety shoes also sold extremely well in 1971, despite the general decline in industrial activity.

Further improving its operations during the year, Thom McAn completed Management Information Systems programs placing girls' and children's footwear inventory under perpetual inventory control. The division also achieved full operation of its new men's and boys' footwear distribution center in Auburn, Mass., and accelerated construction of its new windowless stores, which conserve space and make merchandise directly accessible for examination by passing mall shoppers.

During the year Thom McAn opened 87 stores, including conversions of Miles stores to Thom McAn family stores; and closed 34, for a year-end total of 977.

*Lawrence E. McGourty, 50, president of Thom McAn, who joined Melville in 1955, has extensive experience in footwear styling and marketing, and apparel retailing.*



for the entire family  
**FOOTWEAR**

*Sporting Goods*

PLEASE  
SMOKING  
PLEASE





# Meldisco

Melville's Meldisco leased-department division is one of the largest of the promotional volume footwear department chains. Appealing strongly to young families, Meldisco departments offer a wide variety of fashion, quality footwear on convenient self-service basis.

Meldisco sales, which have increased annually since the division began operations in 1961, were further boosted in 1971 through the division's highly successful promotion of new footwear styles in nationwide newspaper advertising and "spot" television commercials in 46 markets throughout the United States.

During the year Meldisco continued to emphasize the importance of quality control, and superior merchandise value. This was accomplished through expanded use of the Melville Testing Laboratory in establishing standards of quality for increased purchases of Melville-manufactured footwear, as well as products of other key Meldisco suppliers. The upgrading of several lines of merchandise met with considerable customer satisfaction, and plans call for continued testing in this area, as well as increased fashion emphasis and style exclusivity.

Meldisco opened 106 footwear departments in 1971 and closed 12 for a total of 529 at year-end.

*Robert C. Kuhn, 42, president of Meldisco, a specialist in promotional self-service merchandising, has been with the division since its founding in 1961.*



# BALLY





## Bally/Vanguard

During the year Vanguard, Melville's store chain featuring men's fine imported footwear in the \$19-\$60 range, joined forces with Bally of Switzerland in a Melville-Bally joint venture, under which Melville is to market Bally men's shoes in this country. Bally, the most prestigious name in international men's footwear, is famed for the quality and style of its lines which run typically in the \$40-\$60 range.

Two stores, in Worcester, Mass. and Buffalo, N.Y., now carry a mixture of Vanguard and Bally footwear, with most Vanguard stores scheduled for conversion to Bally/Vanguard units.

*Kevit Cook, 36, general manager of Bally/Vanguard has been with the Company since 1969. His experience has been sales oriented in the footwear industry.*



## Melco

In another major step in its continuing expansion, Melville in 1971 launched its new chain of Melco promotional self-service family footwear stores featuring merchandise priced between the Meldisco and Thom McAn lines. Melco lines include some "name" brands at reduced prices, but the majority of its men's, women's and children's footwear carries its own brand names.

Colorfully decorated, fully carpeted and wired for stereo, Melco's new stores, designed to make shopping a pleasant experience, are essentially "shoe supermarkets". To help save space and reduce costs, there are no windows. There are also no salesmen and no stock numbers on the shoes. There is a large selection of styles arranged by size and category. The customers make their own choice, then take the shoes to a cashier for payment and wrapping—a system that combines maximum economy and customer convenience.

There are 11 Melco units in operation with 6 located on Long Island, 3 in New Jersey and 2 in the Washington, D.C. area. A new warehouse in the Brockton, Mass. area will serve the expanding Melco chain.

*Arthur B. Gold, 53, president of Melco, has been with Melville for 35 years, holding almost every job from store extra on up.*

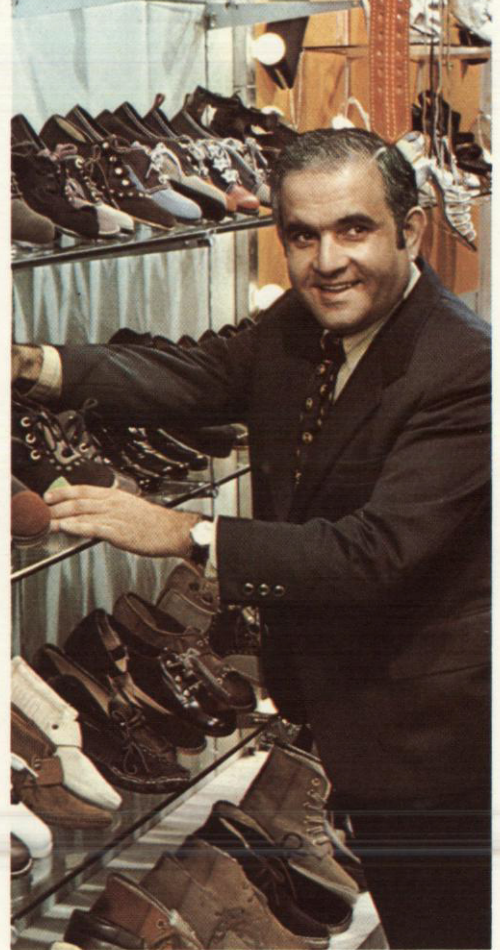
# Miles

Continuing its transformation from a family to a young women's fashion chain in 1971, the Miles division further advanced the development of its "Last Word" boutique shops with decor, displays and floor layouts designed to appeal to the fashion-conscious young woman. Miles also opened several windowless stores in large regional malls featuring merchandise displays easily accessible to customers.

While re-orienting its merchandising approach, Miles, under a new president, further strengthened its administrative procedures during the year through management changes, the consolidation of its operating and merchandising offices at its new Hackensack headquarters and the consolidating of warehousing, accounting, and EDP activities with Melville operations in Massachusetts. Steps were also taken to improve selling cost and shrinkage controls, while extensive personnel training programs were undertaken to improve store operations and sales effectiveness. Lines continue to be upgraded and increased stress has been placed on the establishment and maintenance of quality standards in cooperation with the Melville Testing Laboratory.

In 1971 the Miles division opened 25 stores, including 12 of the new "Last Word" type; and closed 46 units.

*J. Richard Nedder, 44, new Miles president, joined Melville as a 17-year-old salesman. He has held merchandising and administrative posts and was Melville's first EDP systems director.*



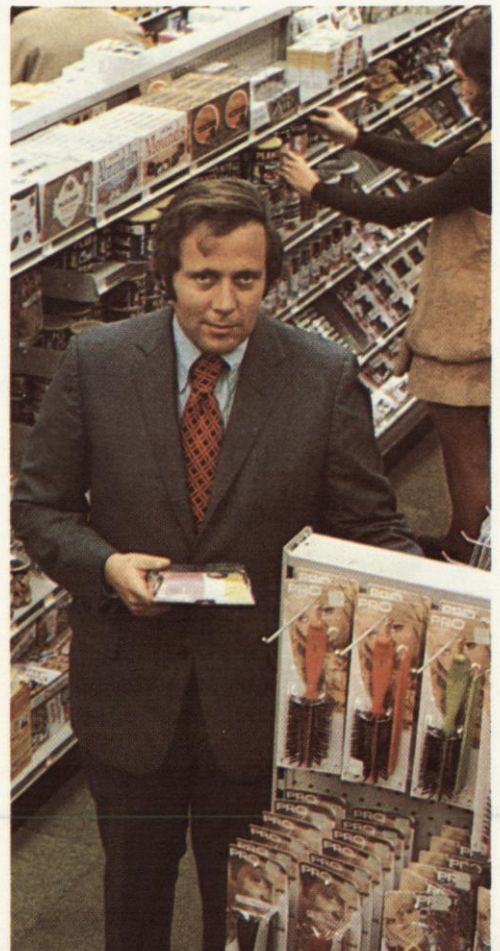
# Consumer Value Stores

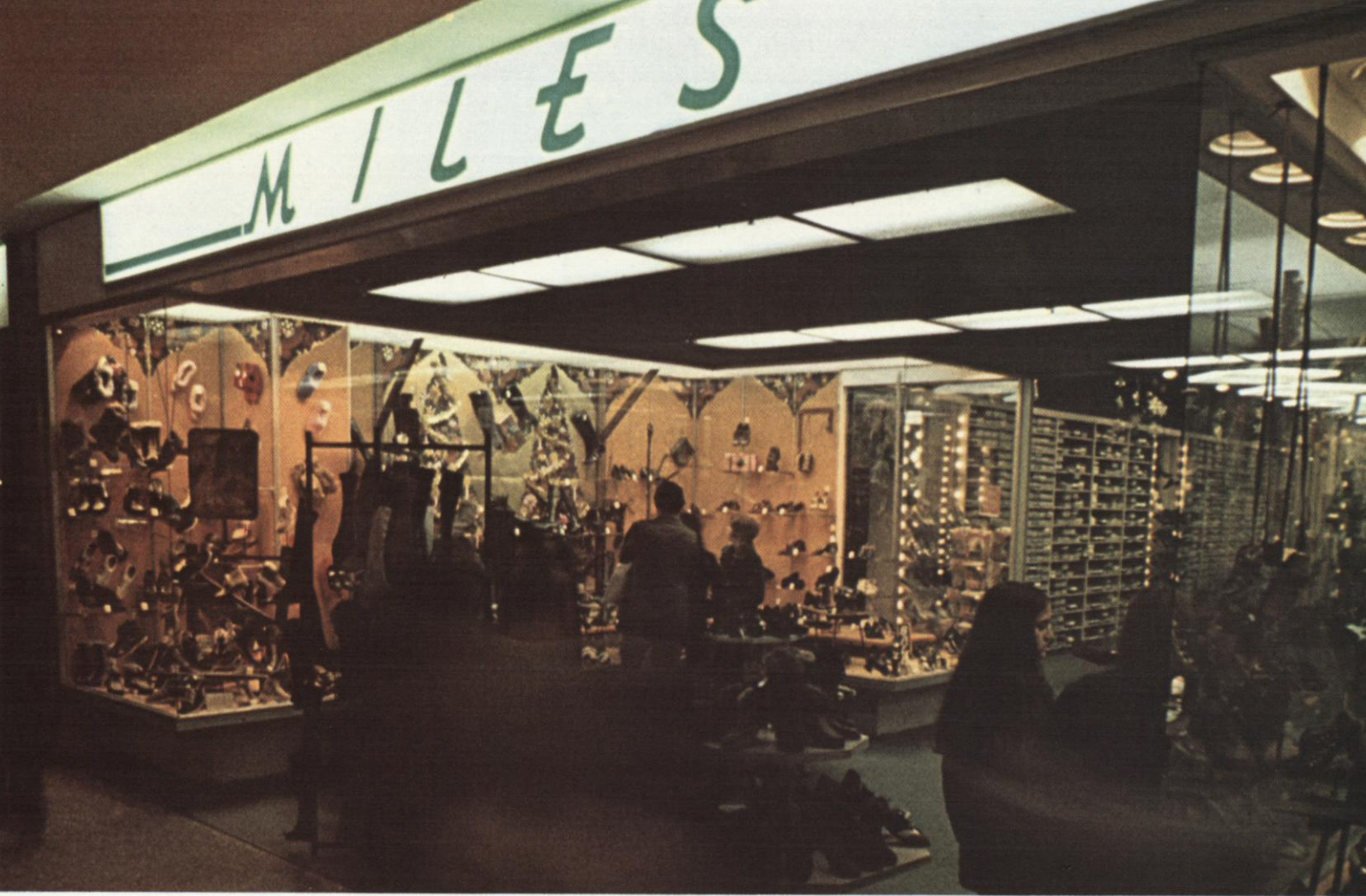
In 1971 CVS, Melville's divisional representative in the fast-growing convenience store field, further expanded its sales of popularly priced health and beauty aids and such convenience items as stationery, candy, greeting cards, housewares and photographic film. Self-service outlets, located in neighborhoods as well as shopping centers, CVS stores feature modern, colorful layouts and well organized displays that enable customers to find what they want quickly and easily.

During the year CVS improved its operational efficiencies by merging its Boston and Rhode Island offices. The division also further strengthened its management structure through widened training programs and the granting of greater responsibilities to district and store managers.

CVS opened 23 new stores and closed 8 in 1971 for a total of 115.

*Stanley P. Goldstein, 37, president of the CVS division, is a specialist in the health and beauty aids field. He helped develop the CVS operation prior to its 1969 acquisition by Melville.*





**CVS**

**CVS**



## Foxmoor

Foxmoor Casuals, Melville's women's sportswear specialty stores with their distinctive red-carpeted, barnwood interiors, hanging merchandise displays, and rock background music, now reach from coast to coast.

Appealing primarily to the young, active, fashion-oriented woman, Foxmoor concentrates on apparel with the strongest current demand while its buyers search such foreign markets as Hong Kong, Taiwan, Korea, Canada, Pakistan, Turkey, England, Italy and Portugal for unique materials and styles to meet customer demands for exclusivity.

Continuing to strengthen and expand its national merchandising apparatus during the year, Foxmoor began operations at its new 50,000 square foot distribution center in Brockton, Mass., reorganized and enlarged its accounting and auditing departments, and expanded its computerization and personnel recruiting and training programs.

Foxmoor opened 44 new stores in 1971 including 11 larger units which give the chain greater impact in regional shopping centers.

*Stuart G. Moldaw, 44, president of Foxmoor Casuals, has 20 years' experience in the retail apparel field including the building of his own chain, sold to Melville in 1970.*



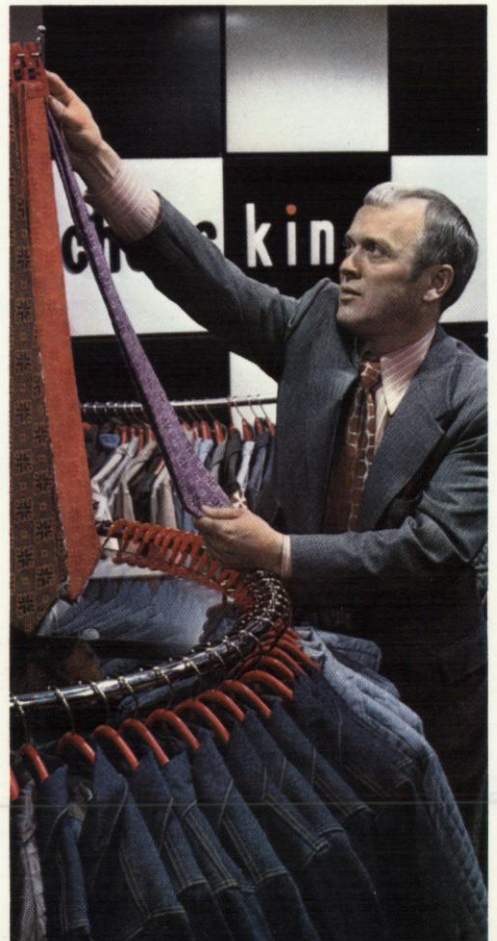
## Chess King

Chess King, Melville's chain of young men's apparel specialty shops, continued to grow and change as its market changed in 1971. New store layouts featured floor-to-ceiling displays of greatly expanded pants lines, including Chess King's own brand. Chess King also introduced its own brand of shirts featuring its exclusive Coin Collar style with rounded collar tips as well as a new silhouette in pants called "Boot Pants".

Operational improvements backed up increased merchandising activity as Chess King utilized its remodelled Worcester, Mass. warehouse facilities and expanded EDP operations to reduce handling and shipping time. Management training was further emphasized through a new six-month training program for District Sales Managers and the establishment of regional training stores.

During the year Chess King opened 66 new stores and closed one for a total of 140.

*John P. Gillig, 46, general manager of Chess King, has been with Melville since 1963. He gained extensive merchandising experience with Thom McAn before helping launch Chess King in 1968.*



# FOXMOOR CASUALS



chess

king







# Manufacturing

Melville has a prime competitive advantage in manufacturing much of the footwear it sells. It can increase production to meet a sudden surge in demand and move quickly to meet rapid changes in fashion requiring the implementation of specialized manufacturing processes and techniques. It is also able to prescribe and require adherence to its own strict standards of quality.

As the result of the contributions of Miller Shoes, women's shoe manufacturer acquired by Melville in 1970, Melville was one of the few U.S. manufacturers to increase output in 1971. It has also maintained a level of productivity well above the industry average through the introduction of such new processes as the injection molding of shoe bottoms, computer scheduling of manufacturing processes, and the design and utilization of new equipment.

Melville Manufacturing, at the end of 1971, operated 17 shoe factories, with 8 plants in New Hampshire, 4 in North Carolina and one each in Massachusetts, Tennessee, Georgia, Puerto Rico and Spain.

*Richard E. West, 54, president of Melville's manufacturing division, has been with the Company since 1946. His background includes materials purchasing and labor relations as well as general footwear manufacturing experience.*

## Melville manufacturing facilities:

### **J. F. McElwain Shoe Co.**

Nashua, New Hampshire (3)  
Manchester, New Hampshire (4)  
Athol, Massachusetts

### **Blue Ridge Shoe Co.**

Wilkesboro, North Carolina  
Boone, North Carolina  
Sparta, North Carolina  
Robersonville, North Carolina  
Mountain City, Tennessee  
Tifton, Georgia

### **Del Mar Shoe Company**

Isabella, Puerto Rico

### **Miller Shoe**

Dover, New Hampshire

### **Calzados Manuel Reig, S.A.**

Villena (Alicante), Spain

# Ten Year Financial Summary

Melville Shoe Corporation  
and subsidiary companies

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
<b>Results for the Year</b> (000's omitted)										
Net Sales .....	\$512,710	\$438,131	\$362,492	\$292,972	\$258,752	\$234,313	\$203,545	\$195,171	\$182,403	\$176,448
Wages and Compensation	95,128	85,662	73,470	64,952	57,279	51,827	46,122	44,305	41,768	41,648
Taxes — All .....	31,259	25,098	21,222	18,124	15,320	11,797	9,866	10,062	8,192	8,617
Earnings Before Federal Income Taxes and Minority Interests .....	45,140	36,754	32,917	27,600	23,408	17,633	13,668	12,337	8,462	9,150
Net Earnings .....	24,535	20,819	19,050	16,228	14,370	11,192	8,418	7,111	4,814	4,987
Dividends Paid .....	9,690	9,035	7,657	6,416	4,833	3,922	3,281	2,779	4,196	5,050
<b>Per Share Results of Common Stock*</b>										
Net Earnings .....	\$2.07	\$1.77	\$1.63	\$1.45	\$1.27	\$.97	\$.71	\$.59	\$.38	\$.40
Dividends .....	.80	.75	.65	.55	.40	.31¼	.25	.20	.32½	.40
Taxes — All .....	2.68	2.17	1.86	1.66	1.40	1.07	.89	.91	.74	.78
Book Value .....	8.77	7.39	6.25	5.23	4.34	3.62	3.06	2.59	2.20	2.14
<b>End of Year Position</b> (000's omitted)										
Current Assets .....	\$152,907	\$118,864	\$104,751	\$85,444	\$77,352	\$67,275	\$61,596	\$58,702	\$49,782	\$50,247
Current Liabilities .....	54,813	51,644	40,244	29,619	26,119	20,279	18,745	17,273	13,694	15,529
Current Ratio .....	2.79	2.30	2.60	2.88	2.96	3.32	3.30	3.40	3.64	3.24
<b>Property, Plant and Equipment</b> (000's omitted)										
At Cost .....	\$101,228	\$85,976	\$71,016	\$63,283	\$57,451	\$53,316	\$50,361	\$47,167	\$47,317	\$47,100
Net After Accumulated Depreciation .....	54,893	44,160	32,458	25,391	20,893	18,377	17,350	16,030	17,927	19,441
Capital Additions .....	20,450	19,364	14,439	8,841	6,409	4,945	4,971	2,046	2,356	3,328
Depreciation .....	7,476	5,520	4,420	3,824	3,455	3,292	3,148	3,272	3,308	3,346
<b>Percent to Net Sales</b>										
Earnings Before Federal Income Taxes and Minority Interests .....	8.80%	8.39%	9.08%	9.42%	9.05%	7.53%	6.72%	6.32%	4.64%	5.19%
Net Earnings .....	4.79%	4.75%	5.26%	5.54%	5.55%	4.78%	4.14%	3.64%	2.64%	2.83%
<b>Percent Net Earnings to Shareholders' Equity ..</b>										
	25.84%	25.46%	27.70%	27.84%	28.16%	24.41%	19.87%	18.52%	12.64%	13.37%
<b>Number of Stores .....</b>										
	2,174	1,918	1,626	1,474	1,366	1,314	1,275	1,250	1,244	1,249

\*Adjusted to reflect two-for-one stock split on April 10, 1968 and on April 14, 1970.

# Financial Review

## Earnings

Consolidated net earnings increased to \$24,535,416 for the year 1971, an increase of 17.9% over the \$20,818,587 for 1970. Earnings per common share amounted to \$2.07 for the year 1971, as compared with \$1.77 for 1970, an increase of 16.9%.

The net earnings for the year 1971 increased for the eighth consecutive year and were the highest in the Company's history.

## Sales

Consolidated net sales amounted to \$512,709,692 reaching a new high in the year 1971, an increase of 17.0% over the net sales of \$438,131,318 for the year 1970.

## Dividends

The Company paid a dividend on common stock of \$.80 per share during the year 1971. The quarterly dividend on common stock was increased to \$.208 per share in January 1972 from \$.20 per share paid in 1971. The dividend on an annual rate amounts to \$.83 per share, the maximum permitted under Federal guidelines, compared to \$.80 per share paid in 1971.

## Property, Plant and Equipment

Capital additions amounted to \$20,449,628 for the year 1971, an increase of \$1,085,937 over the \$19,363,691 for the previous year.

Depreciation charged for the year 1971 was \$7,476,125 as compared to \$5,520,372 for 1970.

## Capital Stock

In January 1972, the Board of Directors voted recommendations to the shareholders for approval at the annual meeting on April 11, 1972, to split the common stock on a 2-for-1 basis and to increase the authorized common shares from 15,000,000 to 30,000,000 shares.

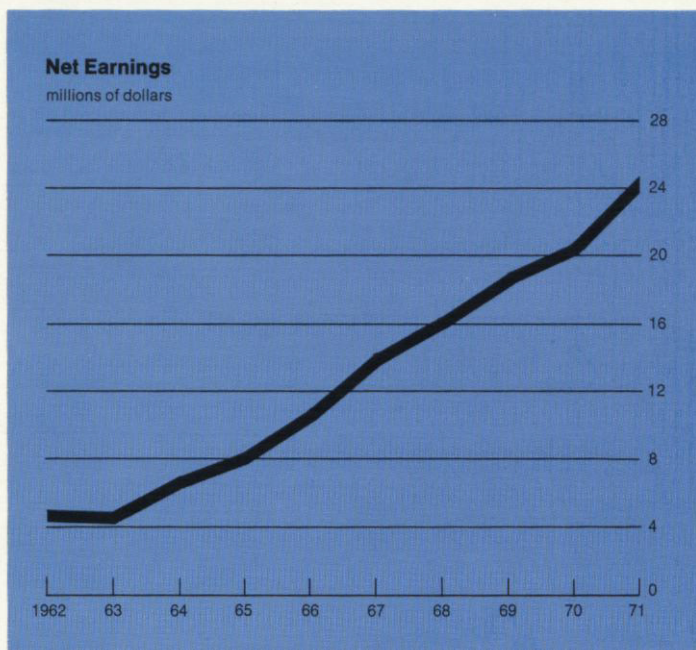
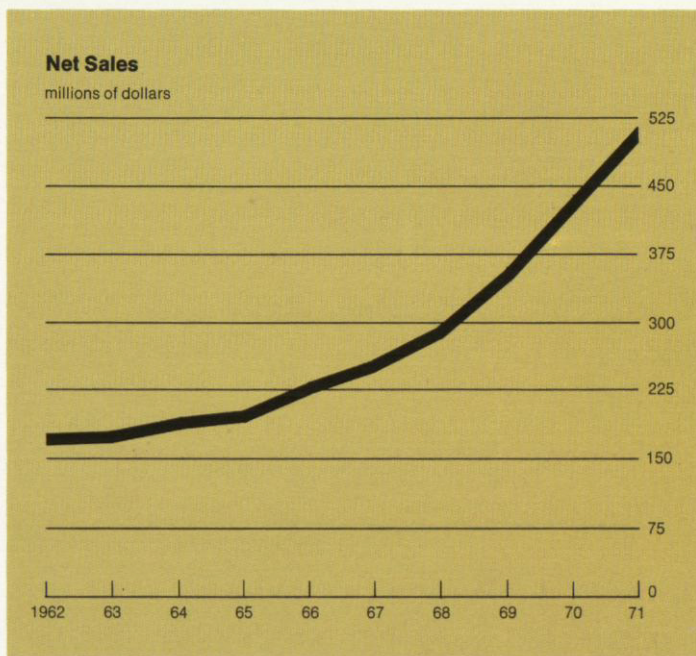
## Distribution of Sales Revenue

	1971	1970
Received from the sale of products . . .	\$512,709,692	\$438,131,318
Paid for materials, merchandise and all expenses, exclusive of taxes and other amounts paid to or for the benefit of employees . . . . .	359,755,328	305,410,076
Remainder . . . . .	152,954,364	132,721,242

This was divided as follows:

	1971	1970
Wages and compensation . . . . .	95,127,881	85,662,132
Taxes . . . . .	31,259,395	25,097,624
Minority interests . . . . .	2,031,672	1,142,899
Paid to shareholders or retained in the business . . . . .	24,535,416	20,818,587

In 1971, after payment for materials, merchandise, taxes, and other necessary expenses, 80% of the balance went to employees and 20% was paid to shareholders or retained in the business.



# Statements of Consolidated Financial Condition

as of December 31, 1971 and 1970

	1971	1970
<b>Assets</b>		
<b>Current assets:</b>		
Cash .....	\$ 33,053,180	\$ 11,134,894
Accounts receivable, less allowance for doubtful accounts .....	10,074,993	11,885,975
Inventories — at lower of cost (7% valued at lifo) or market, principally by the retail method .....	107,800,202	92,246,145
Prepaid expenses .....	1,979,036	3,597,024
Total current assets .....	<u>152,907,411</u>	<u>118,864,038</u>
<b>Property, plant, equipment and leasehold improvements, at cost (note 2):</b>		
Land .....	2,015,924	2,008,929
Buildings .....	6,057,166	5,785,516
Machinery and equipment .....	7,233,316	6,885,508
Store and office fixtures, improvements to leased properties and miscellaneous equipment .....	85,921,697	71,296,483
	<u>101,228,103</u>	<u>85,976,436</u>
Less accumulated depreciation and amortization .....	46,334,757	41,816,211
Net property, plant, equipment and leasehold improvements .....	<u>54,893,346</u>	<u>44,160,225</u>
Deferred charges and other assets (note 2) .....	2,175,652	139,452
	 <u><u>\$209,976,409</u></u>	 <u><u>\$163,163,715</u></u>

See accompanying notes to consolidated financial statements.

	1971	1970
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Notes payable to banks .....	\$ —	\$ 1,350,000
Accounts payable and accrued expenses .....	46,311,881	42,284,466
Federal income taxes .....	8,340,873	7,875,815
Current installments on long-term debt .....	160,645	133,972
Total current liabilities .....	<u>54,813,399</u>	<u>51,644,253</u>
<b>Long-term debt (note 3):</b>		
4 <sup>7</sup> / <sub>8</sub> % Convertible Subordinated Debentures, due June 1, 1996 .....	25,000,000	—
4 <sup>7</sup> / <sub>8</sub> % Debentures, due 1980 (annual sinking fund requirement \$600,000) .....	6,000,000	6,600,000
3 <sup>1</sup> / <sub>2</sub> % Promissory Note, payable in quarterly installments through 1984 .....	1,561,000	1,669,000
6 <sup>1</sup> / <sub>4</sub> % Mortgage Notes, payable in monthly installments through 1989 .....	1,435,911	1,140,991
	<u>33,996,911</u>	<u>9,409,991</u>
Deferred credit (note 4) .....	570,450	775,450
Deferred Federal income taxes (note 5) .....	2,253,951	1,347,153
Lease obligations for closed stores .....	1,123,629	1,198,566
Minority interests in subsidiaries .....	5,945,969	3,826,097
<b>Shareholders' Equity</b>		
Capital stock (notes 1, 6 and 7):		
Preferred stock, Series B, \$4.00 dividend .....	9,204,400	9,706,600
Common stock .....	11,689,976	21,995,785
Capital surplus .....	11,975,914	—
	<u>32,870,290</u>	<u>31,702,385</u>
Retained earnings (note 3) .....	78,602,575	63,756,815
	<u>111,472,865</u>	<u>95,459,200</u>
Less cost of common and preferred shares held in treasury .....	200,765	496,995
	<u>111,272,100</u>	<u>94,962,205</u>
	<u>\$209,976,409</u>	<u>\$163,163,715</u>

Commitments and contingencies (notes 3, 5 and 9)

## Statement of Consolidated Earnings

Years ended December 31, 1971 and 1970	1971	1970
Net sales . . . . .	<b>\$512,709,692</b>	\$438,131,318
Cost of goods sold, buying and warehousing costs . . . . .	<b>290,628,899</b>	252,000,712
	<b>222,080,793</b>	186,130,606
Store operating, selling, general and administrative expenses . . . . .	<b>167,127,066</b>	141,707,011
Depreciation and amortization . . . . .	<b>7,476,125</b>	5,520,372
Interest charges . . . . .	<b>2,297,350</b>	2,368,913
	<b>176,900,541</b>	149,596,296
	<b>45,180,252</b>	36,534,310
Other income (expense) — net . . . . .	<b>(40,164)</b>	220,176
Earnings before Federal income taxes and minority interests . . . . .	<b>45,140,088</b>	36,754,486
Provision for Federal income taxes (note 5) . . . . .	<b>18,573,000</b>	14,793,000
	<b>26,567,088</b>	21,961,486
Minority interests in net earnings . . . . .	<b>2,031,672</b>	1,142,899
Net earnings . . . . .	<b>\$ 24,535,416</b>	\$ 20,818,587
Net earnings per share — common stock (note 8) . . . . .	<b>\$ 2.07</b>	\$ 1.77

## Statement of Consolidated Retained Earnings

Years ended December 31, 1971 and 1970	1971	1970
Retained earnings at beginning of year . . . . .	<b>\$ 63,756,815</b>	\$ 57,705,057
Add: Net earnings for year . . . . .	<b>24,535,416</b>	20,818,587
Retained earnings of companies acquired . . . . .	<b>—</b>	53,187
	<b>88,292,231</b>	78,576,831
Deduct:		
Cash dividends paid:		
Preferred stock, Series B, \$4.00 a share . . . . .	<b>359,724</b>	380,968
Common stock, \$.80 a share; 1970, \$.75 a share . . . . .	<b>9,329,932</b>	8,653,922
Transfer to common stock account of an amount equal to \$1 par value per share to give effect to two-for-one common stock split . . . . .	<b>—</b>	5,785,126
	<b>9,689,656</b>	14,820,016
Retained earnings at end of year . . . . .	<b>\$ 78,602,575</b>	\$ 63,756,815

See accompanying notes to consolidated financial statements.

# Statement of Changes in Consolidated Financial Position

Years ended December 31, 1971 and 1970

	1971	1970
<b>Source of Funds:</b>		
Net earnings .....	<u>\$24,535,416</u>	<u>\$20,818,587</u>
Expenses not requiring outlay of working capital:		
Depreciation and amortization .....	7,476,125	5,520,372
Minority interests in net earnings .....	2,031,672	1,142,899
Increase in deferred Federal income taxes .....	<u>906,798</u>	<u>359,571</u>
	<u>10,414,595</u>	<u>7,022,842</u>
Working capital provided from operations .....	<u>34,950,011</u>	27,841,429
Increase in long-term debt .....	<u>25,360,000</u>	—
Proceeds from sale of common stock under stock option plans .....	1,731,256	1,369,266
Dispositions of property, plant and equipment .....	<u>2,240,382</u>	2,141,181
Proceeds from sale of subsidiaries' capital stock to minority interests, net of dividends .....	88,200	698,550
Other, net .....	<u>(205,000)</u>	<u>261,606</u>
	<u>64,164,849</u>	<u>32,312,032</u>
<b>Application of Funds:</b>		
Additions to property, plant and equipment .....	<u>20,449,628</u>	19,363,691
Reduction in long-term debt .....	773,080	730,855
Increase in deferred charges and other assets .....	<u>2,036,200</u>	—
Reduction (net) in lease obligations on closed stores .....	74,937	210,698
Cash dividends paid .....	<u>9,689,656</u>	9,034,890
Purchase of treasury stock — preferred .....	<u>267,121</u>	<u>258,640</u>
	<u>33,290,622</u>	<u>29,598,774</u>
<b>Net increase in working capital</b>	<u>\$30,874,227</u>	<u>\$ 2,713,258</u>
Net increases in working capital is comprised of:		
Increase (decrease) in current assets:		
Cash .....	<u>\$21,918,286</u>	\$(5,451,658)
Accounts receivable .....	<u>(1,810,982)</u>	2,266,299
Inventories .....	<u>15,554,057</u>	16,337,860
Prepaid expenses .....	<u>(1,617,988)</u>	<u>960,978</u>
	<u>34,043,373</u>	<u>14,113,479</u>
Increase (decrease) in current liabilities:		
Notes payable to banks .....	<u>(1,350,000)</u>	1,350,000
Accounts payable and accrued expenses .....	<u>4,027,415</u>	9,724,552
Federal income taxes .....	<u>465,058</u>	319,133
Current installments on long-term debt .....	<u>26,673</u>	<u>6,536</u>
	<u>3,169,146</u>	<u>11,400,221</u>
	<u>\$30,874,227</u>	<u>\$ 2,713,258</u>

# Notes to Consolidated Financial Statements

## (1) Principles of Consolidation:

The consolidated financial statements include the accounts of Melville Shoe Corporation and its subsidiaries, which are wholly-owned except for certain 75% owned retail subsidiaries, an 80% owned foreign manufacturing subsidiary and a 55% owned foreign purchasing subsidiary.

During 1970, the Company issued 52,307 shares and 7,860 shares (15,720 after stock split — see note 6) of its common stock to effect the acquisitions of Country Casuals, and Miller Shoes, Inc., respectively, which were accounted for as poolings of interests.

## (2) Property, Plant and Equipment:

Depreciation and amortization of property, plant and equipment is provided for accounting purposes on the straight-line method over the estimated lives of the assets. Accelerated depreciation is used for income tax purposes. Deferred income taxes have been provided in the financial statements to recognize timing differences in reporting depreciation for accounting and tax purposes.

Pursuant to an order of condemnation, a subsidiary of the Company was compelled to surrender possession of certain land and building on April 20, 1971. Litigation as to the eventual award for the property is pending. Relocation and related expenses included in deferred charges will be applied to the proceeds of the final award when received. In the opinion of management, the Company will not sustain any loss on the disposition of these assets.

## (3) Long-Term Debt:

The 4 $\frac{7}{8}$ % Convertible Subordinated Debentures are convertible into common stock at the option of the holder up to June 1, 1996 at a price of \$64 per share, subject to adjustment in certain events. The Debentures are redeemable at the option of the Company at 104.875% of the principal amount on or before May 31, 1972 and thereafter at declining amounts to par. The Indenture provides for the establishment of a sinking fund commencing in 1982.

The Indentures relating to the 4 $\frac{7}{8}$ % Convertible Subordinated Debentures due 1996 and the 4 $\frac{7}{8}$ % Debentures due 1980 contain provisions for certain restrictions as to payment of cash dividends and retirement of the Company's capital stock. At December 31, 1971 \$31,677,832 of the consolidated retained earnings was so restricted.

## (4) Retirement Plans and Related Deferred Credit:

The Company's provisions under pension plans aggregated \$1,303,558 in 1971 and \$1,152,844 in 1970; such amounts include amortization of past service costs, less amortization in annual installments to 1978 of a deferred credit representing the amount provided for pensions prior to adoption of funding for all plans.

## (5) Federal Income Taxes:

(a) Deferred Federal income taxes have been provided to reflect the difference in timing of certain deductions for accounting and tax purposes. Such differences arise primarily from depreciation, lease obligations on closed stores and deferred charges. The provision for Federal income taxes includes deferred taxes of approximately \$992,000 in 1971 and \$350,000 in 1970.

(b) In connection with an examination of tax returns of the Company and its subsidiaries for the years 1964, 1965 and 1966, the Internal Revenue Service in 1969 questioned the claiming of separate surtax exemptions for the subsidiary companies. Separate surtax exemptions have been accepted by the Service for all years prior to 1964 and, in the opinion of the Company, they are allowable under the then existing legislation; accordingly, it intends to contest any disallowance. Pursuant to the Tax Reform Act of 1969, multiple surtax exemptions for controlled groups are being phased out over a six-year transitional period which commenced in 1970. If consolidated tax returns had been filed for 1971 and 1970 the approximate reduction in earnings per share would have been \$.10 and \$.19 respectively.

(c) The Company accounts for the investment tax credit under the flow-thru method for both financial and income tax purposes. The investment tax credit for 1971 amounted to approximately \$200,000.

## (6) Capital Stock:

**Preferred Stock**—Authorized preferred stock consists of 195,394 shares of cumulative preferred stock of \$100 par value, issuable in series. At December 31, 1971 there were 92,044 shares of Series B cumulative preferred stock issued; such shares are redeemable at the option of the Company at par value.

**Common Stock**—On April 14, 1970, the shareholders approved a two-for-one stock split and an increase in the number of authorized shares of \$1 par value common stock from 10,000,000 to 15,000,000 shares.

On January 13, 1972, the Board of Directors approved the transfer to a capital surplus account that amount which exceeded the aggregate par value of all \$1 par value common stock issued as of December 31, 1971. This transaction has been reflected in the accompanying statement of financial condition as of December 31, 1971.

Transactions during 1971 are as follows:

	Number of Shares	Amount
Balance at beginning of year . . . . .	11,622,559	\$21,995,785
Excess of par value over cost of preferred stock held in treasury cancelled; 5,022 shares in 1971 and 8,080 shares in 1970 . . . . .	—	171,276
Excess of cost over proceeds of common stock held in treasury sold under stock option plans; 11,219 shares in 1971 and 68,019 shares in 1970 . . . . .	—	(35,598)
Proceeds from sale of common stock under stock option plans . . . . .	67,417	1,534,427
Transfer to capital surplus that amount which exceeded the aggregate par value of all \$1 par value common stock issued as of December 31, 1971 . . . . .	—	(11,975,914)
Balance at end of year . . . . .	<u>11,689,976</u>	<u>\$11,689,976</u>

On January 13, 1972, the Board of Directors authorized a two-for-one common stock split and an increase in the authorized shares of \$1 par value common stock from 15,000,000 to 30,000,000 shares subject to the approval of stockholders at their annual meeting on April 11, 1972.



# Accountants' Report

**Treasury Stock**—During 1971 and 1970, 4,132 shares and 3,920 shares of Series B cumulative preferred stock were purchased for \$267,121 and \$258,640, respectively, for sinking fund purposes. At December 31, 1971, 3,120 preferred shares are held in treasury at a cost of \$200,765. The 11,219 common shares held in treasury at December 31, 1970 were delivered under stock option plans during 1971.

## (7) Stock Option and Stock Purchase Plans:

(a) Under a stock option plan for key managerial employees 344,789 shares of common stock were reserved at December 31, 1971.

Information regarding options granted under the plan is as follows:

	Number of Shares	Price Range Per Share
Shares under option December 31,		
1970 .....	258,715	\$ 7.625 - \$35.875
1971 .....	311,709	\$17.09375-\$57.375
Shares which became exercisable during:		
1970 .....	233,600	\$27.875 - \$35.875
1971 .....	16,500	\$30.75 - \$31.25
Options exercised:		
1970 .....	67,487	\$ 7.625 - \$29.375
1971 .....	77,566	\$ 7.625 - \$35.875

At December 31, 1971 options for 178,209 shares were exercisable and 33,080 shares are available for grant under the plan.

(b) Under an incentive stock purchase plan covering a maximum of 400,000 shares of common stock, key managerial employees may purchase shares of common stock within two years from the date such stock is offered to them. The minimum purchase price is the higher of (1) book value per share as of the fiscal year-end preceding the date of offer or (2) 50% of the fair market value at the date of offer. During 1971, 1,070 shares offered during 1969 were purchased under the plan. No shares were offered for purchase during 1970 and 1971.

## (8) Earnings Per Share:

Earnings per share have been computed based on the average number of common shares outstanding during each year. The conversion of the Convertible Subordinated Debentures and exercise of the outstanding stock options would not result in any dilution of earnings per share.

## (9) Commitments:

Total minimum annual rentals (exclusive of amounts based on sales) payable under leases amounted to approximately \$23,700,000 at December 31, 1971. Such leases will expire on various dates to the year 2000; however, it is anticipated that as leases expire they will be renewed or new leases will be executed. Total rent expense amounted to approximately \$43,280,000 in 1971 and \$33,700,000 in 1970.

PEAT, MARWICK, MITCHELL & CO.  
Certified Public Accountants  
345 Park Avenue  
New York, New York 10022

To the Board of Directors  
and Shareholders  
Melville Shoe Corporation:

We have examined the statements of consolidated financial condition of Melville Shoe Corporation and subsidiary companies at December 31, 1971 and at December 31, 1970, and the related statements of earnings, retained earnings and changes in financial position for each year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to final determination of Federal income tax liability as described in note 5b of notes to consolidated financial statements, the accompanying consolidated financial statements present fairly the financial position of Melville Shoe Corporation and subsidiary companies at December 31, 1971 and at December 31, 1970, and the results of their operations and changes in financial position for each year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Peat, Marwick, Mitchell & Co.*

February 24, 1972

## Directors and Officers

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**Melville Shoe Corporation**, 25 West 43rd Street, New York, New York 10036

### Directors

WARD MELVILLE, *Chairman*  
CHESTER BAYLIS, JR.  
KENNETH K. BERLAND  
LEIGHTON H. COLEMAN  
ROBERT C. ERB  
FRANCIS H. GLEASON  
ROBERT C. KUHN  
ROBERT McDONALD  
LAWRENCE E. McGOURTY  
FRANK MELVILLE  
FRANCIS C. ROONEY, JR.  
MICHAEL M. ROSENBERG  
MURRAY M. ROSENBERG  
RICHARD E. WEST

### Executive Committee

MURRAY M. ROSENBERG, *Chairman*  
LEIGHTON H. COLEMAN  
FRANCIS H. GLEASON  
WARD MELVILLE  
FRANCIS C. ROONEY, JR.

### Vice Presidents

ARTHUR B. GOLD  
STANLEY P. GOLDSTEIN  
ROBERT C. KUHN  
LAWRENCE E. McGOURTY  
STUART G. MOLDAW  
WILLIAM E. SPERRY  
RICHARD E. WEST

### Officers

WARD MELVILLE, *Chairman of the Board*  
FRANCIS C. ROONEY, JR., *President and Chief Executive Officer*  
FRANCIS H. GLEASON, *Senior Vice President*  
KENNETH K. BERLAND, *Financial Vice President and Treasurer*

ROBERT L. MORRIS, *Controller*  
THOMAS S. ROTHWELL, *Secretary*  
GILBERT G. KEMNITZ, *Assistant Secretary*  
ARTHUR V. RICHARDS, *Assistant Secretary*  
BERTHA K. SMITH, *Assistant Secretary*  
JOHN J. RADEMAKER, *Assistant Treasurer*

## The Divisions

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### **Thom McAn Shoe Company**

67 Millbrook Street  
Worcester, Massachusetts 01606

LAWRENCE E. McGOURTY, *President*

### Vice Presidents

JOHN F. RIEFLER, JR., *Sales Manager*  
JOHN P. GILLIG, *General Manager, Chess King*  
THOMAS BARRETTE  
JAMES F. BARRY  
JACK CHILSON  
FERDINAND P. HAGGERTY  
VICTOR P. MANGINI  
RICHARD H. McCARTHEY  
WILLIAM H. MUCKLEY  
JOSE PALACIOS  
JOHN J. RADEMAKER, *Controller*  
JOHN J. SHORE  
WILLIAM J. SMITH  
ARTHUR V. RICHARDS, *Secretary*

### **Miles Shoes**

Continental Plaza  
401 Hackensack Avenue  
Hackensack, New Jersey 07601  
J. RICHARD NEDDER, *President*  
WILLIAM YEAGER, *Vice President*  
JOHN J. RADEMAKER, *Controller and Secretary*

### **Melco Shoes**

Continental Plaza  
401 Hackensack Avenue  
Hackensack, New Jersey 07601  
ARTHUR B. GOLD, *President*  
LAWRENCE A. COHEN, *Vice President and General Manager*

### **Meldisco**

Continental Plaza  
401 Hackensack Avenue  
Hackensack, New Jersey 07601  
ROBERT C. KUHN, *President*  
Vice Presidents  
JACK ENTEL, *General Manager*  
ERNEST OSOROWITZ, *Controller and Secretary*

ARNOLD B. POMERANTZ  
HARVEY A. SCHAFLEER  
MORRIS SALTIEL

### **Foxmoor**

Campanelli Industrial Park  
Campanelli Drive  
Brockton, Massachusetts 02401  
STUART G. MOLDAW, *President*  
HARRY GREENBERG, *Vice President*  
PAUL R. FRIEND, *Controller and Secretary*

### **Consumer Value Stores**

400 Founders Drive  
Woonsocket, Rhode Island 02895  
STANLEY P. GOLDSTEIN, *President*  
SIDNEY S. GOLDSTEIN,  
*Executive Vice President*

### Vice Presidents

HERBERT A. COHEN  
DAVID V. FERRON  
KEVIN HUGHES  
TROY KETCHUM  
DAVID R. JONSON, *Controller and Secretary*

### **J. F. McElwain Company**

12 Murphy Drive  
Nashua, New Hampshire 03060  
FRANCIS H. GLEASON, *Chairman*  
RICHARD E. WEST, *President*  
Vice Presidents  
A. BYRON MANSFIELD, *Controller and Secretary*  
J. RICHARD BURNS  
JOHN R. DeWITT  
DONALD W. ERION  
JOSEPH L. PIOTROWSKI  
FREDERIC E. SHAW  
GORDON J. WILSON

### **Blue Ridge Shoe Company**

Spring Street and River Road  
Wilkesboro, North Carolina 28697  
FRANCIS H. GLEASON, *Chairman*  
RICHARD E. WEST, *President*

JOHN R. DeWITT, *Vice President and General Manager*  
A. BYRON MANSFIELD, *Vice President, Secretary and Controller*  
MICHAEL C. AHERN, *Vice President*

### **Miller Shoes**

385 Central Avenue  
Dover, New Hampshire 03820  
RICHARD E. WEST, *Chairman and President*  
LOUIS M. JOHNSON, *Vice President*  
DONALD H. MARCHESI, *Controller and Secretary*

### **Melville Realty Company, Inc.**

25 West 43rd Street  
New York, New York 10036  
HOWARD A. BROWN, *President*  
Vice Presidents  
JOSEPH F. BIGOS  
FRANCIS H. GLEASON  
THOMAS S. ROTHWELL  
NAT WEINER  
JOHN J. RADEMAKER, *Treasurer and Assistant Secretary*  
GILBERT G. KEMNITZ,  
*Assistant Treasurer*  
ARTHUR V. RICHARDS, *Secretary*  
Assistant Secretaries  
BARRY FELTINGOFF  
GILBERT G. KEMNITZ  
BERTHA K. SMITH

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### **Counsel:**

Davis Polk & Wardwell

### **Auditors:**

Peat, Marwick, Mitchell & Co.

### **Transfer Agent:**

Irving Trust Company,  
1 Wall Street, New York, N. Y. 10015

### **Registrar:**

First National City Bank,  
111 Wall Street, New York, N. Y. 10015



