MELVILLE SHOE CORPORATION

ANNUAL REPORT

1940
Store at 160-11 Jamaica Avenue
Jamaica, N.Y.
MELVILLE SHOE CORPORATION

ANNUAL REPORT 1940

J. F. McELWAIN COMPANY
JOHN WARD MEN’S SHOES
THOM McAN
FRANK TOD

EXECUTIVE OFFICES: 25 WEST 43RD STREET, NEW YORK
DIRECTORS

J. FRANKLIN McELWAIN, Chairman

WILLIAM J. COBB  WARD MELVILLE
ROBERT C. ERB  JOSEPH L. MERRILL
JOEL E. FISHER  FRANCIS P. MURPHY
FREDERICK S. LITTLE  SEWARD M. PATERSON

OFFICERS

WARD MELVILLE, President

WILLIAM J. COBB, Vice-President  ELBERT R. ALLEN, Treasurer
JOSEPH L. MERRILL, Vice-President  JOEL E. FISHER, Secretary
ARThUR PAAR, Assistant Secretary

COUNSEL

DAVIS POLK WARDWELL GARDINER & REED

AUDITORS

PEAT, MARWICK, MITCHELL AND CO.

TRANSFER AGENT

IRVING TRUST COMPANY

1 Wall Street, New York

REGISTRAR

CITY BANK FARMERS TRUST CO.

22 William Street, New York
TO THE STOCKHOLDERS OF
MELVILLE SHOE CORPORATION:

The twenty-seventh annual report of Melville Shoe Corporation and subsidiaries, for the year ending December 31, 1940, is submitted herewith. This report includes the J. F. McElwain Company, Melville Realty Co. Inc. and the R-W Realty Co. Inc.

NET INCOME

The consolidated net income for the year amounted to $3,210,961, as against $3,141,161 for the year 1939. This represents, after preferred dividends, earnings of $2.96 per share, as compared with $2.90 per share in 1939. The earnings for 1940, before provision for Federal income and excess profits taxes, exceeded the earnings for 1939, before taxes, by $465,926.

DIVIDENDS

During the year, in addition to regular dividends on the outstanding 5% cumulative convertible preferred stock of the company, there was paid $2.25 per share on the common stock.

SALES

Dollar sales at retail for the year amounted to $40,260,777, as compared with $38,326,853 in 1939, an increase of 5.05%.

Unit sales at retail for the year were 10,933,085 pairs of shoes, as against 10,713,767 pairs in 1939, a gain of 2.05%.

In both dollars and units the volume of business in 1940 was the largest in the history of your company.

Sales of the J. F. McElwain Company for 1940, including intercompany sales, were $22,446,029, compared with $21,721,707 in 1939, an increase of 3.33%.
CURRENT POSITION

At the year end, the total current assets were $14,844,013, as against current liabilities of $3,152,686, a ratio of 4.71 to one. On the same date, the cash on hand and in banks amounted to $7,369,918. The company has no funded indebtedness.

TAXES

Taxes paid or accrued during the year amounted to $2,006,593, which is equivalent to $2.18 per share of common stock outstanding or 18 cents per pair of shoes sold. For the year 1939, taxes amounted to $1,612,206 which was $1.75 on the same per share basis.

INVENTORY

At the end of the year, the inventory amounted to $6,721,273, as compared with $6,729,364 at December 31, 1939. Finished-goods inventory was $4,898,399, which is 12.1% of sales at retail during the year; this compares with $4,734,454 at the end of the previous year. Our inventory is carried at cost or market, whichever is lower, less reserve.

ORGANIZATION

Although general business activity, stimulated by the defense program, has reached a high level, it is not possible to predict how the manufacture and distribution of consumers' goods, including shoes, will be affected by the unforeseeable events of the next year. We do face the future with confidence chiefly because of our belief in the flexibility and strength of the company's organization. A brief report on the progress of that organization during 1940, in which we believe stockholders will be interested, is given on pages 14 to 19.

The results of the consolidation of the J. F. McElwain Company with Melville Shoe Corporation, which became effective on December 22, 1939, have been gratifying and have met every expectation. During the first full year of operation under the new arrangement, the manufacturing and distributing organizations worked together with an improvement in the cooperative spirit which had existed for eighteen years previously.
The J. F. McElwain Company now operates nine shoe factories and two supply factories in Nashua and Manchester, New Hampshire.

WILLIAM FITCH ALLEN

The death of William Fitch Allen on November 11, 1940 brought a deep sense of loss to all of his associates and to those stockholders who knew him and were aware of his contributions to the welfare of their company. Mr. Allen had been chief counsel for Melville Shoe Corporation since 1923, a member of the Board of Directors since 1928, and a Vice-President since 1934. The officers and executives of the company will miss his counsel, and they will miss the profound inspiration of his strong and genial personality.

The officers and directors desire to express their sincere appreciation to all of their 6,600 associates and co-workers in stores, warehouse, factories, and offices, for their splendid spirit of cooperation and sustained effort during the year.

Respectfully submitted

J. Franklin McElwain
CHAIRMAN OF THE BOARD

Ward McElwain
PRESIDENT

March 8, 1941
Melville Shoe Corporation and Subsidiary Companies

CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1940–1939

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>1940</th>
<th>1939</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash in banks and on hand</td>
<td>$7,369,918</td>
<td>$6,583,369</td>
</tr>
<tr>
<td>Marketable securities (market quotations, $801,500)</td>
<td>—</td>
<td>786,294</td>
</tr>
<tr>
<td>Accounts receivable (trade, $399,649; misc., $62,306)</td>
<td>461,955</td>
<td>568,252</td>
</tr>
<tr>
<td>Less reserve for doubtful accounts</td>
<td>20,307</td>
<td>21,992</td>
</tr>
<tr>
<td></td>
<td><strong>441,648</strong></td>
<td><strong>546,260</strong></td>
</tr>
<tr>
<td>Advance payments on merchandise</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories, at the lower of cost or market less reserve for markdowns (see Note 6):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finished goods</td>
<td>4,898,399</td>
<td>4,734,454</td>
</tr>
<tr>
<td>Work in process, raw materials, and supplies</td>
<td>1,822,874</td>
<td>1,994,910</td>
</tr>
<tr>
<td></td>
<td><strong>6,721,273</strong></td>
<td><strong>6,729,364</strong></td>
</tr>
<tr>
<td>Total Current Assets</td>
<td><strong>$14,844,013</strong></td>
<td><strong>$14,718,747</strong></td>
</tr>
<tr>
<td>Notes Receivable, non-current, less reserve $30,000</td>
<td>—</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>INVESTMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks and bond of other companies, less reserve to reduce to estimated realizable values</td>
<td>9,923</td>
<td>21,485</td>
</tr>
<tr>
<td>Held by bank as security for store managers’ deposits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>110,811</td>
<td>—</td>
</tr>
<tr>
<td>U. S. Treasury Bonds at cost</td>
<td>—</td>
<td>102,940</td>
</tr>
<tr>
<td>Cash surrender value of $1,011,196 of life insurance policies on the life of the President</td>
<td>135,014</td>
<td>118,957</td>
</tr>
<tr>
<td></td>
<td><strong>$ 255,748</strong></td>
<td><strong>$ 243,382</strong></td>
</tr>
<tr>
<td><strong>FIXED ASSETS</strong> (at estimated replacement values at December 31, 1931, as determined by the Corporation, plus subsequent additions at cost):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and buildings</td>
<td>1,412,131</td>
<td>1,344,189</td>
</tr>
<tr>
<td>Building on leased land, New York (see Note 2)</td>
<td>408,521</td>
<td>408,521</td>
</tr>
<tr>
<td>Machinery and equipment (see Note 3)</td>
<td>814,775</td>
<td>798,963</td>
</tr>
<tr>
<td>Store and office fixtures, improvements to leased store properties, and miscellaneous</td>
<td>5,109,493</td>
<td>4,853,387</td>
</tr>
<tr>
<td></td>
<td><strong>7,744,920</strong></td>
<td><strong>7,405,060</strong></td>
</tr>
<tr>
<td>Less: Reserves for depreciation and amortization</td>
<td>4,406,738</td>
<td>4,221,294</td>
</tr>
<tr>
<td></td>
<td><strong>$ 3,338,182</strong></td>
<td><strong>$ 3,183,766</strong></td>
</tr>
<tr>
<td><strong>PREPAID EXPENSES AND DEFERRED CHARGES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid insurance, taxes, rents, and supplies</td>
<td>344,082</td>
<td>243,216</td>
</tr>
<tr>
<td>Bonuses, commissions, and legal expenses paid to procure lease contracts, amount unamortized</td>
<td>42,552</td>
<td>54,104</td>
</tr>
<tr>
<td></td>
<td><strong>$ 386,634</strong></td>
<td><strong>$ 297,320</strong></td>
</tr>
<tr>
<td>Total</td>
<td><strong>$18,824,577</strong></td>
<td><strong>$18,463,215</strong></td>
</tr>
</tbody>
</table>
Melville Shoe Corporation
and Subsidiary Companies

CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1940–1939

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>1940</th>
<th>1939</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$1,391,192</td>
<td>$1,612,146</td>
</tr>
<tr>
<td>Accrued taxes, rent, royalties and</td>
<td>588,631</td>
<td>703,868</td>
</tr>
<tr>
<td>sundry expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for Federal income and</td>
<td>1,172,863</td>
<td>768,000</td>
</tr>
<tr>
<td>excess profits taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>$3,152,686</td>
<td>$3,084,014</td>
</tr>
<tr>
<td>Store managers' security deposits,</td>
<td>$157,079</td>
<td>$159,197</td>
</tr>
<tr>
<td>and deposits on leases</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RESERVES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-insurance</td>
<td>206,087</td>
<td>202,552</td>
</tr>
<tr>
<td>Pensions</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Store front replacements</td>
<td>61,869</td>
<td>58,215</td>
</tr>
<tr>
<td><strong>Total Reserves</strong></td>
<td>$317,956</td>
<td>$310,767</td>
</tr>
</tbody>
</table>

**CAPITAL STOCK (see Note 4)**

**PREFERRED—5% Cumulative Convertible (redeemable at $105 per share), par value $100 each:**

- Authorized—100,000 shares
  - Issued—98,260 shares 9,826,000 9,826,000
  - Less: 233 shares converted into common on the basis of 3 1/2 shares of common for 1 share of preferred 23,300 —
  - Outstanding 9,802,700 9,826,000
  - Less: Held in Treasury, 575 shares (in 1940) 57,500 100
  - Held in Sinking Fund for Retirement, 2,948 shares 294,800 —
  - 352,300 100
- **Total Preferred** 9,450,400 9,825,900

**COMMON—par value $1.00 each:**

- Authorized (including 330,764 shares reserved in 1940 and 343,910 in 1939 for issuance in exchange for preferred stock)—1,300,000 shares
  - Issued 919,711 918,896
  - $10,370,111 $10,744,796

**PAID-IN SURPLUS**

- $22,485 —

**EARNED SURPLUS**

- $4,804,260 $4,164,441

**Total**

- $18,824,577 $18,463,215
Melville Shoe Corporation and Subsidiary Companies

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR YEARS ENDED DECEMBER 31, 1940 AND 1939

(See Note 1)

<table>
<thead>
<tr>
<th></th>
<th>1940</th>
<th>1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store and factory sales</td>
<td>$62,706,806</td>
<td>$60,048,560</td>
</tr>
<tr>
<td>Store sales</td>
<td>$40,260,777</td>
<td></td>
</tr>
<tr>
<td>Factory sales</td>
<td>22,446,029</td>
<td></td>
</tr>
<tr>
<td>Less inter-company sales</td>
<td>20,110,557</td>
<td>19,174,780</td>
</tr>
<tr>
<td>Net sales</td>
<td>42,596,249</td>
<td>40,873,780</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>28,264,795</td>
<td>26,940,496</td>
</tr>
<tr>
<td></td>
<td>$14,331,454</td>
<td>$13,933,284</td>
</tr>
<tr>
<td>Store operating, selling, general and administrative expenses</td>
<td>9,495,097</td>
<td>9,141,958</td>
</tr>
<tr>
<td>Depreciation</td>
<td>541,536</td>
<td>589,298</td>
</tr>
<tr>
<td></td>
<td>10,036,633</td>
<td>9,731,256</td>
</tr>
<tr>
<td>Net profit on real estate operations</td>
<td>4,294,821</td>
<td>4,202,028</td>
</tr>
<tr>
<td></td>
<td>37,242</td>
<td>99,187</td>
</tr>
<tr>
<td></td>
<td>$ 4,332,063</td>
<td>$ 4,102,841</td>
</tr>
<tr>
<td>Interest paid on store managers’ deposits, etc.</td>
<td>8,393</td>
<td>7,770</td>
</tr>
<tr>
<td>Special payments to bonus and pension trust fund of J. F. McElwain Co.</td>
<td>—</td>
<td>169,500</td>
</tr>
<tr>
<td>Increase in reserve for investments</td>
<td>—</td>
<td>26,150</td>
</tr>
<tr>
<td>Additional provision for pensions</td>
<td>15,344</td>
<td>23,261</td>
</tr>
<tr>
<td>Miscellaneous charges</td>
<td>48,720</td>
<td>63,239</td>
</tr>
<tr>
<td></td>
<td>72,457</td>
<td>289,920</td>
</tr>
<tr>
<td>Less miscellaneous income</td>
<td>79,612</td>
<td>60,371</td>
</tr>
<tr>
<td></td>
<td>$ 7,155</td>
<td>$ 229,549</td>
</tr>
<tr>
<td>Net income before Federal income and excess profits taxes</td>
<td>$ 4,339,218</td>
<td>$ 3,873,292</td>
</tr>
<tr>
<td>Provision for Federal income and excess profits taxes (Including $68,400 for excess profits tax)</td>
<td>1,128,257</td>
<td>732,131</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 3,210,961</td>
<td>$ 3,141,161</td>
</tr>
</tbody>
</table>
Melville Shoe Corporation
and Subsidiary Companies

CONSOLIDATED SURPLUS ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 1940

CONSOLIDATED PAID-IN SURPLUS
Surplus arising from conversion of Preferred 5% cumulative convertible stock into Common stock in 1940.......................... $ 22,485

CONSOLIDATED EARNED SURPLUS
Consolidated earned surplus as at December 31, 1939......................... 4,164,441
Net income for the year ended December 31, 1940......................... 3,210,961
Deduct: $7,375,402
Dividends paid:
Preferred stock—5%........................................... $ 485,285
Common stock—$2.25 per share....................................... 2,068,734
2,554,019
Premium paid on purchase of preferred 5% cumulative convertible stock................................................. 17,123 2,571,142
Consolidated earned surplus as at December 31, 1940......................... $4,804,260

NOTES TO CONSOLIDATED BALANCE SHEET, PROFIT
AND LOSS AND SURPLUS ACCOUNTS

(1) For comparative purposes the operations of the J. F. McElwain Company for the full year 1939 have been included in the Consolidated Profit and Loss Account for 1939 although this Company was not acquired by Melville Shoe Corporation until December 22, 1939. Inter-company profits have been eliminated and in 1939 amounted to $20,000.00.

(2) The building on leased land is operated under the terms of a lease of which the current period expires on January 1, 1946 with the option on the part of the Corporation, subject to expenditures during or before 1946 of an additional amount estimated at $700,000.00, to extend it for two further periods of twenty-one years each. Provision for the amortization of the building is being made over the current period of the lease.

(3) Under the customary terms of lease agreements covering machinery leased, the J. F. McElwain Company, a subsidiary, is liable to the lessor for deferred license fees of $69,580.64 (net) as at December 31, 1940 in the event that such machinery is returned to the lessor; in addition, the subsidiary is obligated to pay all repair charges and return freight costs when and as leased machinery is returned to the lessor.
(4) On August 2 in the year 1941 and in each year thereafter, so long as any Preferred Stock remains outstanding in the hands of others than the Corporation, the Corporation shall make available for the purchase and retirement of Preferred Stock a sum in cash (or in reacquired Preferred Stock taken at par) equal to the par value of 3% of the maximum aggregate amount of Preferred Stock which shall have been issued prior to the first day of January in the then current year plus an amount equal to dividends thereon from August 1 to August 31, plus a premium of 5% of such par value. The amount to be made available August 2, 1941 is $310,747.25.

(5) Melville Shoe Corporation is contingently liable under litigation pending on appeal from a decision in its favor. Counsel are of the opinion that the judgment of the lower court will be affirmed, but that if it is reversed the damages should not exceed $50,000.00.

(6) Inventories have been determined on the basis of physical inventories taken principally during the latter part of the year and adjusted to the end of the year.

ACCOUNTANTS' REPORT

To the Board of Directors,
Melville Shoe Corporation,
New York, N. Y.

We have examined the Consolidated Balance Sheet of Melville Shoe Corporation and Subsidiary Companies as at December 31, 1940 and the statements of Consolidated Profit and Loss and Surplus for the year ended on that date, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying Consolidated Balance Sheet and the related statements of Consolidated Profit and Loss and Surplus fairly present the consolidated position of Melville Shoe Corporation and Subsidiary Companies at December 31, 1940 and the results of the operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

February 24, 1941
Stores and Sales—1930-1940

![Graph showing percentage trend from 1930 to 1940.]

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<table>
<thead>
<tr>
<th>Year-end</th>
<th>Stores at Year-end</th>
<th>Pairs Sold at Retail</th>
<th>Total Sales at Retail</th>
<th>No. of Factories (1)</th>
<th>Factory Sales</th>
<th>Combined Earnings</th>
<th>Earnings per common share (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>480</td>
<td>6,515,190</td>
<td>$28,654,300</td>
<td>6</td>
<td>$12,620,525</td>
<td>$2,061,099</td>
<td>$1.72</td>
</tr>
<tr>
<td>1931</td>
<td>476</td>
<td>6,470,720</td>
<td>26,286,158</td>
<td>6</td>
<td>11,600,146</td>
<td>1,656,660</td>
<td>1.28</td>
</tr>
<tr>
<td>1932</td>
<td>499</td>
<td>5,731,535</td>
<td>20,594,311</td>
<td>6</td>
<td>8,497,864</td>
<td>1,185,338</td>
<td>.87</td>
</tr>
<tr>
<td>1933</td>
<td>535</td>
<td>6,369,254</td>
<td>21,112,763</td>
<td>8</td>
<td>10,631,665</td>
<td>2,069,059</td>
<td>1.72</td>
</tr>
<tr>
<td>1934</td>
<td>588</td>
<td>7,686,068</td>
<td>27,215,927</td>
<td>8</td>
<td>14,398,684</td>
<td>2,634,265</td>
<td>2.34</td>
</tr>
<tr>
<td>1935</td>
<td>609</td>
<td>9,085,155</td>
<td>30,355,524</td>
<td>10</td>
<td>16,947,267</td>
<td>3,001,984</td>
<td>2.74</td>
</tr>
<tr>
<td>1936</td>
<td>651</td>
<td>9,907,356</td>
<td>35,300,758</td>
<td>11</td>
<td>19,578,204</td>
<td>3,534,897</td>
<td>3.32</td>
</tr>
<tr>
<td>1937</td>
<td>690</td>
<td>10,314,791</td>
<td>38,155,438</td>
<td>11</td>
<td>22,199,736</td>
<td>2,801,695</td>
<td>2.52</td>
</tr>
<tr>
<td>1938</td>
<td>677</td>
<td>10,146,182</td>
<td>36,042,285</td>
<td>11</td>
<td>19,053,609</td>
<td>2,295,534</td>
<td>1.97</td>
</tr>
<tr>
<td>1939</td>
<td>663</td>
<td>10,713,767</td>
<td>38,326,853</td>
<td>11</td>
<td>21,721,707</td>
<td>3,141,161</td>
<td>2.90</td>
</tr>
<tr>
<td>1940</td>
<td>666</td>
<td>10,933,085</td>
<td>40,260,777</td>
<td>11</td>
<td>22,446,029</td>
<td>3,210,961</td>
<td>2.96</td>
</tr>
</tbody>
</table>

(1) Includes one supply factory before 1935; two supply factories, 1935-40.

(2) On basis of the capitalization of Meville Shoe Corporation as of December 31, 1940.
Progress During 1940

The financial facts shown in this report present an aspect of Melville Shoe Corporation of immediate importance to stockholders. But other aspects of the business—its organization and planning for day-to-day activity and particularly for the maintenance and strengthening of its position in serving the public—are also of great importance in estimating the company’s total situation. Hence, the following report on progress during the period of this report.

STORE IMPROVEMENTS

During the year, 136 stores were remodelled, enlarged, or otherwise improved. In 24 stores, air-conditioning was installed, bringing the number of air-conditioned stores to 146. The company pioneered in the installation of carefully adjusted fluorescent lighting in windows and interiors in 1940, and installations were made in 55 stores. This resulted in greatly improved illumination in these stores, with substantial reductions in lighting costs.

Under the company’s program for improving both store facilities and store locations where possible, 31 stores were replaced by new stores in better locations in the same communities; 28 stores were opened in new communities; and 25 stores were closed. On December 31, 1940, there were 666 stores in operation, which compared with 663 on December 31, 1939. The 666 stores in operation at the year-end included 11 John Ward stores, 1 John Ward leased department, 10 Frank Tod stores, 623 Thom McAn stores and 21 Thom McAn leased departments.

NEW EXECUTIVE OFFICES

In December, the executive offices of the company were moved from 555 Fifth Avenue, where they had been located for twelve and a half years, to 25 West 43rd Street, New York. The new offices occupy the 12th floor of the building, and part of the 11th floor, with total floor space nearly double that of the old, thus providing sorely needed space for departments which had been excessively crowded during recent years. The annual cost per square foot of space is much less than in the former quarters, and only slightly larger as a total sum.

MERCHANDISING AND SALES PROMOTION

An outstanding promotional event of the year was the celebration, last Fall, of the manufacture and sale of the 100-millionth pair of Thom McAn men’s and boys’ shoes. Through mention on Thom McAn radio programs, on twenty-five million match covers, in store windows, and in package inserts, many millions of people learned of the simple and impressive fact that 100,000,000 pairs of Thom McAn shoes had been sold.
Progress During 1940

The financial facts shown in this report present an aspect of Melville Shoe Corporation of immediate importance to stockholders. But other aspects of the business—its organization and planning for day-to-day activity and particularly for the maintenance and strengthening of its position in serving the public—are also of great importance in estimating the company's total situation. Hence, the following report on progress during the period of this report.

STORE IMPROVEMENTS

During the year, 136 stores were remodelled, enlarged, or otherwise improved. In 24 stores, air-conditioning was installed, bringing the number of air-conditioned stores to 146. The company pioneered in the installation of carefully adjusted fluorescent lighting in windows and interiors in 1940, and installations were made in 55 stores. This resulted in greatly improved illumination in these stores, with substantial reductions in lighting costs.

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The company’s general advertising program was expanded, principally through additional radio news broadcasts. In its radio advertising, the company sponsors news broadcasts primarily; in which events of the year undoubtedly heightened interest. The 1941 schedule of Thom McAn radio programs is:

<table>
<thead>
<tr>
<th>Station</th>
<th>Time</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>WABC, New York</td>
<td>7:45-8:00 A.M.</td>
<td>Monday through Saturday</td>
</tr>
<tr>
<td>WBBM, Chicago</td>
<td>10:30-11:45 A.M.</td>
<td>Tuesday, Thursday, Saturday</td>
</tr>
<tr>
<td>WWJ, Detroit</td>
<td>7:45-8:00 A.M.</td>
<td>Monday through Saturday</td>
</tr>
<tr>
<td>WGAR, Cleveland</td>
<td>7:15-7:30 A.M.</td>
<td>Monday through Saturday</td>
</tr>
<tr>
<td>KYW, Philadelphia</td>
<td>7:45-8:00 A.M.</td>
<td>Monday through Saturday</td>
</tr>
</tbody>
</table>

Stockholders are invited to listen to any of these programs which may be within reach of their dialing, and to let the company have their judgment concerning the interest and value of the programs heard.

In exploring demand below the Thom McAn price level, there was developed during the year, after considerable research, Tod’s Valyu men’s shoes selling at $2.50 per pair. These shoes are distributed through the Frank Tod stores and through a limited number of Thom McAn stores located in communities where demand for this type of shoe appears to exist. Tod’s Valyu shoes are of Goodyear welt construction, using good wearing materials, and they represent, it is confidently believed, the best possible value at the price. Valyu shoes—for men, boys and children—are intended primarily for sale to those who, for purposes of economy, may be willing to accept materials of sound but lower quality and a smaller range of selection than are available in Thom McAn shoes.

Since for some years the trend has been toward an increasing number of styles in all lines of shoes, including men’s shoes, and apparently regardless of price, the company does not yet consider that the Valyu line or the Tod stores have passed finally the experimental stage. (The latest type of Tod store, opened in October, 1940, is illustrated on page 16.)

The market for higher-priced shoes was explored as well. In its John Ward stores, the company developed a new line of shoes, known as Mastershoes, embodying exclusive and patented features, and providing unusual elements of comfort and style. It should be understood, however, that the John Ward stores, although the oldest unit of the company, do not contribute materially to the company’s earnings.

In promoting sales in the sixty-four Thom McAn stores carrying women’s shoes and hosiery, a special advertising campaign was conducted last year; and women’s handbags, boudoir slippers, and gloves were added to most of these stores with resultant increases in sales volume.

Sales of Thom McAn safety shoes were materially higher in 1940 than in 1939. Within three years, the company has become one of the country’s largest distributors
of safety shoes. It is hoped that this will become a profitable department of the business. Under Thom McAn’s “Packaged Foot Safety” plan, 490 Thom McAn stores are now acting as safety shoe departments for hundreds of industrial plants, giving individual and specialized service to workers in those plants. Thom McAn safety shoes are being worn in many of the plants engaged in filling Army and Navy orders.

IMPACT OF THE DEFENSE EFFORT

The inauguration during the year of a vast program for national defense affected the company at various points. The great majority of the company’s store staffs are men; and approximately 80% of these men are within the age limits set in the Selective Service Act. However, dependents and other reasons for deferment have decreased the number of those who may be considered subject to call. During the year somewhat less than 3% of total male personnel was inducted into the Army; and, although there will be an increase during the coming year, the company anticipates no serious dislocations.

New Store at Lawrence, Massachusetts
As compared with many other firms, an unusually large percentage of the company's customers are also men within the service age limits, and the selective service induction thus reduces the number of potential customers. A considerable number of customers entered the service in 1940, and more will follow this year. However, many of them may be expected to continue as the company's customers, since the government will not supply them with dress shoes but with service shoes only. The company will continue to serve these men through stores already located near most of the major training centers, and in some instances through new stores which are being opened.

Another way in which the defense program is affecting the company's business is through the stimulation of employment, payrolls and purchasing power in many industrial centers. The company operates stores in every major industrial city, exclusive of the Pacific Coast; and increased purchasing power in these communities is now being reflected in store sales.

GOVERNMENT CONTRACTS

The company is participating in the manufacture and supply of service shoes for the Army and the Civilian Conservation Corps through assigning part of its productive capacity for that purpose. The company's price, including a moderate profit, has been the lowest on each occasion when it has submitted a bid. In 1940 the company was awarded contracts for 200,000 pairs of Army service shoes and for 38,928 pairs of CCC service shoes, 19,362 pairs having been produced during the year and the balance being due for delivery prior to May 1, 1941. On February 17, 1941 the company was low bidder on an additional 75,000 pairs of Army service shoes for delivery prior to June 30, 1941.

PERSONNEL

Relations between management and men throughout the company during the past year, were on a personalized basis, as they have been for years. The fact that the company's principal executives know hundreds of men and women by name is significant in view of the extent of operations. The degree of direct personal contact is high. Spring Conventions which are held each year in various cities are attended by officers and principal executives of the company, including those directly concerned with store operations and representatives of the factories. Every store manager attends one of these conventions, and thus is brought into close contact with top management, supplementing his regular contact with the district director who has immediate supervision of his store.

As a result of these meetings, and of other management policies (based, as they are, upon the widespread application of the conference method) there has grown a mutual understanding and confidence which has been and is regarded as essential to the successful operation of the business.
Stability of employment, both throughout the year, and from year to year, when competence and reliability have been demonstrated, has always been one of the principal aims of the company. 552 out of 660 store managers have been continuously employed by the company for more than five years; and 231 managers have been employed for more than ten years.

In relation to industry-wide conditions, stability of employment in the company's factories is especially notable. The J. F. McElwain Company factories operated steadily during the year of 1940, as they have for many past years. These factories have a record of operation of approximately fifty weeks per year during the past eighteen years (with the exception of a short period in 1931-1932, in which years the operation was 47.6 weeks and 45 weeks, respectively) which, so far as is known, is unequaled in the industry. As of February 13, 1941, group life, sickness and disability insurance was extended to the factory workers at low cost. The plan has been embraced by 97% of the eligible personnel.

PUBLIC RELATIONS

The company's basic purpose, since the beginning of its operations, has been to accomplish the wide distribution of shoes of fixed high standards of quality at the lowest possible prices, and in this way to make a contribution to the increased pur-
chasing power and the standard of living of the consumer. While remaining competitively strong in the performance of this function, the company has endeavored to secure for workers in the business high weekly and annual wages. It has endeavored also to earn a fair return on the capital which the stockholders have risked in the business, since it is realized that a business enterprise is jointly the effort of stockholder, management, and worker.

The company considers its prime function to be its direct economic service to individual consumers. But it also recognizes its social responsibilities to the communities in which it operates. It maintains a total of 435 memberships in Chambers of Commerce and similar business organizations; supports financially several hundred local Community Chest and Welfare campaigns; and, through its store managers, supplies sympathetic cooperation and manpower for these important community efforts.

During 1940, the company cooperated with other direct distributors in various programs designed to aid in solving the persistent surplus problems of agricultural producers. Through window and interior displays, special letters to all landlords and bankers with whom the company does business, and through liberal mention on its radio programs, it has given all possible assistance to special campaigns for increasing the domestic consumption of cotton, dairy products, and citrus fruits. These efforts were undertaken in cooperation with national chain store organizations operating in every field.

EDUCATIONAL COOPERATION

The company continued to regard its cooperation with educational institutions as a highly important phase of its public relations program. During the year, it initiated a program of interviews by the managers of Thom McAn and other chain store organizations with groups of high-school students, which has spread from one southern city to communities throughout the country. Store managers describe and illustrate, for small groups of students, the precise nature of the jobs existing in the various types of stores. This program is particularly designed to strengthen the morale of the students in the country's high schools, through a demonstrated interest in the job aspirations and problems of these boys and girls.

The company also has recently put into circulation two colored motion pictures on shoemaking, one dealing with operations and production methods, and the other with the different jobs which exist within the industry. These will replace black-and-white prints on the same general subjects which in 1940 were shown to more than 4,000,000 high school and grade students in the cities and towns in which the company's stores are located. There have been many expressions of approval from educators; and undoubtedly this motion picture program has been effective in promoting among young people a wider understanding both of American industrial achievement and of the aims and operation of the Thom McAn business.
# Stores of Melville Shoe Corporation
## as at December 31, 1940

### JOHN WARD—12 STORES
- New York (5)  
- Brooklyn (2)  
- Newark  
- Philadelphia  
- Detroit*

### FRANK TOD—10 STORES
- New York (5)  
- Brooklyn  
- Jersey City  
- Newark  
- Lawrence  
- Passaic

### THOM McAN—644 STORES
(in 347 cities in 40 states, including the District of Columbia)

#### New England

<table>
<thead>
<tr>
<th>State</th>
<th>Stores</th>
<th>Stockholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONNECTICUT</td>
<td>(22)</td>
<td>(130)†</td>
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<tr>
<td>Bridgeport</td>
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<tr>
<td>Bristol</td>
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<tr>
<td>Danbury</td>
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<tr>
<td>Derby</td>
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<tr>
<td>Hartford</td>
<td>(3)</td>
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<tr>
<td>Meriden</td>
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<tr>
<td>Middletown</td>
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<tr>
<td>New Britain</td>
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<tr>
<td>New Haven</td>
<td>(3)</td>
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<tr>
<td>New London</td>
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<tr>
<td>Norwich</td>
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<tr>
<td>South Manchester</td>
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<tr>
<td>South Norwalk</td>
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<tr>
<td>Stamford</td>
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<tr>
<td>Waterbury</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>Willimantic*</td>
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</tr>
</tbody>
</table>

#### MAINE (2)
(20 stockholders)

- Lewiston
- Portland

#### MASSACHUSETTS (59)
(399 stockholders)

- Allston
- Arlington
- Attleboro
- Beverly*
- Boston (7)
- Brockton
- Cambridge (2)
- Chelsea
- Dorchester (3)
- East Boston
- Everett
- Fall River
- Fitchburg

- Framingham
- Gloucester
- Haverhill
- Holyoke
- Hyde Park
- Lawrence (2)
- Lowell
- Lynn (a)
- Malden*
- Marlboro*
- Medford
- Milford*
- New Bedford (3)
- Northampton*
- Norwood
- Pittsfield
- Quincy
- Roslindale
- Roxbury
- Salem
- Somerville (2)
- South Boston
- Southbridge*
- Springfield (2)
- Wakefield
- Waltham
- Watertown
- Webster*
- Woburn
- Worcester (2)

#### NEW HAMPSHIRE (5)
(72 stockholders)

- Concord
- Manchester
- Nashua*
- Portsmouth
- Rochester*

#### RHODE ISLAND (11)
(34 stockholders)

- Newport
- Pawtucket (2)
- Providence (5)
- Westerly
- West Warwick*
- Woonsocket

#### VERMONT (1)
(6 stockholders)

- Burlington

#### Middle Atlantic

<table>
<thead>
<tr>
<th>State</th>
<th>Stores</th>
<th>Stockholders</th>
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</thead>
<tbody>
<tr>
<td>NEW YORK</td>
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<tr>
<td>Amsterdam</td>
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<tr>
<td>Auburn</td>
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<tr>
<td>Binghampton</td>
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<tr>
<td>Buffalo</td>
<td>(6)</td>
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<tr>
<td>Elmira</td>
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<td>Freeport</td>
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<td>Glens Falls</td>
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<td>Hempstead</td>
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<td>Jamestown</td>
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<td>Kenmore</td>
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<tr>
<td>Kingston</td>
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<tr>
<td>Lockport*</td>
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<tr>
<td>Lynbrook</td>
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<tr>
<td>Mount Vernon</td>
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<td>Newburgh</td>
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<td>New Rochelle</td>
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<tr>
<td>New York:</td>
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</tr>
<tr>
<td>Manhattan</td>
<td>(30)</td>
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<tr>
<td>Bronx</td>
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<tr>
<td>Brooklyn</td>
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<tr>
<td>Queens</td>
<td>(15)</td>
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<td>Richmond</td>
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<tr>
<td>Niagara Falls</td>
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<tr>
<td>Olean</td>
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<tr>
<td>Peeksilk</td>
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<td>Port Chester</td>
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<tr>
<td>Port Jefferson Station*</td>
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<tr>
<td>Poughkeepsie</td>
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<tr>
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<tr>
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<td>Syracuse</td>
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<td>Troy</td>
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<tr>
<td>Utica</td>
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<tr>
<td>Yonkers</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>White Plains</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NEW JERSEY (39)  
(277 stockholders)
Asbury Park
Atlantic City
Bayonne
Bloomfield
Camden (2)
Elizabeth
Englewood
Hackensack
Harrison
Hoboken
Irvington
Jersey City (6)
Long Branch
Montclair
Morristown
Newark (7)
New Brunswick
Orange
Passaic
Paterson (2)
Plainfield
Red Bank
Rutherford
Trenton
Union City
West New York

PA (23)
(226 stockholders)
Allentown
 Altoona
 Beaver Falls
 Braddock
 Chester
 Erie (2)
 Easton
 Greensburg
 Harrisburg
 Hazleton
 Homestead
 Johnstown
 Lancaster
 McKeesport
 New Castle
 New Kensington
 Norristown
 Philadelphia (20)
 Pittsburgh (6)
 Pottsville
 Reading
 Scranton
 Shenandoah
 Upper Darby
 Wilkes Barre
 Wilkinsburg
 York

East North Central

ILLINOIS (38)  
(189 stockholders)
Aurora
 Berwyn
 Bloomington
 Chicago (24)
 Danville
 Decatur
 Evanston
 Joliet
 Kankakee
 Moline
 Oak Park
 Peoria
 Quincy
 Rock Island
 Springfield

INDIANA (20)  
(24 stockholders)
Anderson
 Bloomington*
 Elkhart
 Evansville (2)
 Fort Wayne (2)
 Gary
 Hammond
 Indianapolis (3)
 Jeffersonville*
 Lafayette
 Marion
 Muncie
 New Albany
 Richmond
 South Bend
 Terre Haute

MICHIGAN (33)  
(56 stockholders)
Ann Arbor
 Battle Creek
 Bay City
 Dearborn
 Detroit (16)
 Flint
 Grand Rapids
 Hamtramck
 Highland Park
 Jackson
 Kalamazoo
 Lansing
 Muskegon
 Pontiac
 Port Huron
 River Rouge
 Royal Oak
 Saginaw

OHIO (46)  
(143 stockholders)
Akron (2)
 Alliance
 Ashland
 Ashtabula*
 Canton
 Cincinnati (7)
 Cleveland (12)
 Cleveland Heights
 Columbus (3)
 Dayton (3)
 Hamilton
 Lakewood
 Lima
 Lorain
 Mansfield
 Norwood
 Portsmouth
 Springfield
 Steubenville
 Toledo (3)
 Warren
 Youngstown (2)

WISCONSIN (10)  
(38 stockholders)
Eau Claire
 Kenosha
 La Crosse
 Madison
 Milwaukee (4)
 Oshkosh
 West Allis

West North Central

IOWA (4)  
(13 stockholders)
Davenport
 Des Moines (2)
 Dubuque

KANSAS (2)  
(2 stockholders)
Topeka
 Wichita

MINNESOTA (7)  
(35 stockholders)
Duluth
 Minneapolis (4)
 St. Paul (2)

MISSOURI (19)  
(42 stockholders)
Cape Girardeau*
 Kansas City (4)
 Maplewood
 St. Joseph
 St. Louis (12)
NEBRASKA (2)
(10 stockholders)
Lincoln
Omaha

South Atlantic

DELWARE (2)
(5 stockholders)
Wilmington (2)

DISTRICT OF
COLUMBIA (6)
(26 stockholders)
Washington (6)

FLORIDA (10)
(53 stockholders)
Jacksonville (2)
Lakeland
Miami (2)
Pensacola
Orlando
Tampa
West Palm Beach
Ybor City

GEORGIA (8)
(12 stockholders)
Athens*
Atlanta (3)
Augusta
Columbus
Macon
Savannah

MARYLAND (13)
(46 stockholders)
Baltimore (11)
Cumberland
Hagerstown

NORTH CAROLINA (8)
(17 stockholders)
Asheville
Charlotte
Durham
Greensboro
Hickory*
Raleigh
Wilmington
Winston Salem

SOUTH CAROLINA (5)
(11 stockholders)
Charleston
Columbia
Florence*

Greenville
Spartanburg

VIRGINIA (8)
(27 stockholders)
Lynchburg
Newport News
Norfolk (2)
Portsmouth
Richmond (2)
Roanoke

WEST VIRGINIA (4)
(9 stockholders)
Charleston
Clarksburg
Huntington
Wheeling

South Central

ALABAMA (5)
(4 stockholders)
Birmingham (2)
Ensley
Mobile
Montgomery

ARKANSAS (3)
(1 stockholder)
Fort Smith
Hot Springs
Little Rock

KENTUCKY (8)
(27 stockholders)
Ashland*
Covington
Lexington
Louisville (3)
Newport
Paducah

LOUISIANA (7)
(14 stockholders)
Baton Rouge
Monroe
New Orleans (4)
Shreveport

MISSISSIPPI (4)
(4 stockholders)
Greenville
Jackson
Meridian
Vicksburg

OKLAHOMA (2)
(5 stockholders)
Oklahoma City
Tulsa

TENNESSEE (7)
(8 stockholders)
Chattanooga
Johnson City
Knoxville
Memphis (3)
Nashville

TEXAS (26)
(18 stockholders)
Abilene
Amarillo
Austin
Beaumont
Bryan*
Corpus Christi
Dallas (4)
El Paso
Fort Worth (2)
Galveston
Houston (3)
Laredo
Lubbock
McAllen
San Angelo
San Antonio (2)
Tyler
Waco
Wichita Falls

Mountain

ARIZONA (2)
(5 stockholders)
Phoenix
Tucson

COLORADO (3)
(13 stockholders)
Denver (2)
Pueblo

NEW MEXICO (1)
(1 stockholder)
Albuquerque

UTAH (2)
(6 stockholders)
Ogden
Salt Lake City

*Indicates Leased Department.

11 states are shown the distribution of individual holders of record of common stock per a recent survey. Corporations' and brokers' holdings have been omitted. In nine states and foreign countries in which there were no stores, there were 173 individual holders of common stock.
MELVILLE SHOE CORPORATION

EXECUTIVE OFFICES: 25 West 43rd Street, New York
ACCOUNTING AND GENERAL OFFICES AND WAREHOUSE:
44 Hammond Street, Worcester, Mass.

J. F. McELWAIN COMPANY

FACTORIES: Nashua (4) and Manchester (7), N. H.
GENERAL OFFICES: 103 Temple Street, Nashua
BOSTON OFFICE: 140 Federal Street