MELVILLE SHOE CORPORATION

ANNUAL REPORT

1944
DIRECTORS

J. FRANKLIN McELWAIN, Chairman
FRANKERD S. LITTLE
WILLIAM J. COBB
WARD MELVILLE
ROBERT C. ERB
JOSEPH L. MERRILL
JOEL E. FISHER
FRANCIS P. MURPHY
SEWARD M. PATERSON

OFFICERS

WARD MELVILLE, President
JOEL E. FISHER, Secretary
WILLIAM J. COBB, Vice-President
ARTHUR PAAR, Ass't. Secretary
JOSEPH L. MERRILL, Vice-President
H. ALBERT BRODIN, Treasurer
JOHN B. FITCH, Ass't. Vice-President
FRANK SOKOL, Ass't. Treasurer

COUNSEL

DAVIS POLK WARDWELL SUNDERLAND & KIENDL

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 thirty-first annual report of Melville Shoe Corporation and subsidiaries for the year ending December 31, 1944, 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 $2,192,797, as against $2,452,069 for the year 1943. This represents, after preferred dividends on the actual number of preferred shares outstanding at the end of the year, earnings of $1.85 per share, which compares with $2.15 per share in 1943.

DIVIDENDS

During the year, in addition to regular dividends on the outstanding 5% cumulative convertible preferred stock of the company, there was paid $2.00 per share on the common stock, as in 1943. The company has paid dividends each year since 1916.

SALES

Combined dollar sales were $70,290,044 as compared with $68,526,432 in 1943. Sales at retail for the year amounted to $37,051,163, as compared with $39,238,096 in 1943. Unit sales at retail for the year were 8,397,002 pairs of shoes, as against 8,797,480 pairs in 1943; and 13,419,296 pairs of hosiery as compared with 13,467,270 pairs in 1943.
Sales of the J. F. McElwain Company for 1944, including intercompany sales, were $33,238,881, compared with $29,288,336 in 1943. J. F. McElwain Company sales to the U. S. Government agencies amounted to $13,906,047 in 1944, compared with $9,141,549 in 1943.

During the year, renegotiation of sales to the Government for the period ending December 31, 1943 was completed; no refund was found necessary. It is anticipated that renegotiation of 1944 sales will result in no substantial adjustment.

CURRENT POSITION

At the end of the year, the total current assets were $17,320,164 of which $10,459,556 was cash and U. S. Government securities, as against current liabilities of $5,379,709, a ratio of 3.22 to one.

If U. S. Treasury tax anticipation notes owned by the company were applied against the provision for Federal income and excess profits taxes, the company’s current assets would be $15,925,164, as against current liabilities of $3,984,709, a ratio of 4.00 to one.

The company had no bank loans during the year and has no funded indebtedness.

CAPITAL STOCK

During the year, 26,489 shares of the 5% cumulative convertible preferred stock were converted into 79,467 shares of common stock. The resulting change in the capital structure is reflected in the balance sheet which is part of this report.

TAXES

The company’s taxes for 1944 amounted to $2,545,030 which is equivalent to $2.53 per share of common stock outstanding.
Provision for Federal income and excess profits taxes, less post-war refund, amounted to $1,691,730 compared with $2,222,053 in 1943. The excess profits tax provision (without deduction of post-war refund) in 1944 was $209,254, compared with $788,737 in 1943.

WAGES

After the purchase of materials and merchandise, the amount paid out by the company in wages and compensation was the largest single item of company expense.

The company's payments to employees, the Government, and common stockholders, in the year 1944 were:

- Wages and compensation ........... $13,018,344
- Taxes, federal, state and local .... 2,545,030
- Dividends on common stock ...... 1,854,345

INVENTORY

At the end of the year, inventory amounted to $5,253,405, as compared with $6,317,426 at December 31, 1943. A major portion of the inventory was computed at cost based on the last-in first-out method; a reserve for markdowns was included in the original last-in first-out base. A portion (in 1944, about $1,286,000) was computed at the lower of cost or market, less reserve for markdowns.

SUPPLY AND DEMAND

While a shortage of materials and manpower has been common to all industry serving civilian consumers during this war period, the shoe business has had the further problem of rationing. In addition, companies like ours manufacturing and selling men's shoes principally have had their operations curtailed inevitably by the absence in the armed forces of
millions of their best customers. All of these restricting factors were more acute in 1944 than in 1943. Higher costs in manufacturing and distribution which have crept into all industry are particularly noticeable in our operations on account of the decreased volume and the ceiling on our retail prices. The result is necessarily reflected in earnings.

Civilian consumers’ deferred needs and the immediate needs of returning service men will provide a large future demand for the company’s principal product.

STORE OPERATIONS

No major store improvements were possible during 1944. Minor improvements to 28 stores were made; 9 stores were re-located; 9 stores were closed; 2 departments selling safety shoes were opened in Navy Yards at the request of the U. S. Navy Department. On December 31, 1944, there were in operation 549 stores compared with 556 at the end of the previous year. These consisted of 10 John Ward stores, 532 Thom McAn stores and 7 Thom McAn departments.

In 1944, the company expended, and charged against operations, $270,431 for maintenance and repairs, as compared with $291,240 in 1943. $113,743 was expended for capital improvements in 1944 against $63,682 in 1943. Depreciation charged against operations amounted to $443,918, as compared with $510,781 in 1943.

MANPOWER

2,001 members of the organization have left the company to serve in the armed forces of the United States; 33 of these are reported as killed; 14 as missing in action; and 12 as prisoners of war. Of those who have been honorably discharged by the forces, 108 have been re-employed by the company. 1,171 of those going into the armed services have come from
the stores, headquarters office and warehouse, and 830 from the factories. Women now comprise 42% of the company’s workers in its factories, and 35% of its store personnel. The total number of employees at the end of 1944 was 5,770.

EMPLOYES’ RETIREMENT PLAN

The contributory Retirement Plan for the retail division of Melville Shoe Corporation which was approved at a Special Meeting of the stockholders on December 15, 1944, has been approved by the Internal Revenue Department and is expected to be in effect in 1945. Complete details were submitted to all stockholders and approved by them. Eight of the ten directors, including the President and Vice-President in charge of finance, do not participate in the Plan or receive any direct benefits from it.

PREFERRED STOCK

During the latter part of the year we studied with the aid of our bankers and attorneys the best method from the standpoint both of the corporation and the stockholders of reducing the annual charges on our preferred stock to the prevailing market rate. A plan which we believe to be fair and equitable has been evolved and is explained in a separate letter which is being mailed concurrently.

Respectfully submitted,

J. Franklin Mead
CHAIRMAN OF THE BOARD

Warren MeAdooes
PRESIDENT

March 21, 1945
Melville Shoe Corporation

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1944 AND 1943

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>1944</th>
<th>1943</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>$6,936,720</td>
<td>$6,804,021</td>
</tr>
<tr>
<td>United States Government securities, at cost (market value $2,119,097—1944, $899,612—1943)</td>
<td>2,127,836</td>
<td>900,000</td>
</tr>
<tr>
<td>United States Treasury tax notes</td>
<td>1,395,000</td>
<td>2,750,000</td>
</tr>
<tr>
<td>Accounts receivable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States Government</td>
<td>1,103,191</td>
<td>358,430</td>
</tr>
<tr>
<td>Trade and miscellaneous</td>
<td>509,119</td>
<td>411,973</td>
</tr>
<tr>
<td>Less reserve for doubtful accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,612,310</td>
<td>770,403</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,107</td>
<td>9,244</td>
</tr>
<tr>
<td></td>
<td>1,607,203</td>
<td>761,159</td>
</tr>
<tr>
<td>Inventories, at cost based on “last-in, first-out” method less reserve for markdowns (see Note 1):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finished goods</td>
<td>3,151,388</td>
<td>4,197,222</td>
</tr>
<tr>
<td>Work in process, raw material, and supplies</td>
<td>2,102,017</td>
<td>2,120,204</td>
</tr>
<tr>
<td></td>
<td>5,253,405</td>
<td>6,317,426</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$17,320,164</td>
<td>$17,532,606</td>
</tr>
<tr>
<td><strong>INVESTMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States Government securities, at cost, held by bank as security for store managers’ deposits</td>
<td>142,000</td>
<td>144,983</td>
</tr>
<tr>
<td>Cash surrender value of $1,004,000 of life insurance policies on the life of the President</td>
<td>231,489</td>
<td>207,260</td>
</tr>
<tr>
<td>Post-war refund of excess profits tax—estimated (including United States excess profits tax post-war refund bonds of $124,124)</td>
<td>439,876</td>
<td>436,059</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>1,438,976</td>
<td>1,437,161</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>961,636</td>
<td>929,936</td>
</tr>
<tr>
<td>Store and office fixtures, improvements to leased store properties and miscellaneous equipment</td>
<td>5,199,725</td>
<td>5,254,612</td>
</tr>
<tr>
<td>Less reserves for depreciation and amortization</td>
<td>7,600,337</td>
<td>7,621,709</td>
</tr>
<tr>
<td><strong>Building on leased land, New York (see Note 2)</strong></td>
<td>5,513,353</td>
<td>5,171,310</td>
</tr>
<tr>
<td>Less reserve for amortization</td>
<td>408,520</td>
<td>408,520</td>
</tr>
<tr>
<td></td>
<td>365,238</td>
<td>321,966</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>376,629</td>
<td>429,582</td>
</tr>
<tr>
<td>Bonusus, commissions and legal expenses paid to procure leases, amount unamortized</td>
<td>19,280</td>
<td>27,977</td>
</tr>
<tr>
<td></td>
<td>395,909</td>
<td>457,559</td>
</tr>
<tr>
<td>Cash in Preferred Stock Retirement Fund (see Notes 3 and 8)</td>
<td>1,160,225</td>
<td>849,689</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$21,819,929</strong></td>
<td><strong>$22,165,109</strong></td>
</tr>
</tbody>
</table>
# Consolidated Balance Sheet as of December 31, 1944 and 1943

## Liabilities

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>1944</th>
<th>1943</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable—trade</td>
<td>$2,036,670</td>
<td>$1,988,897</td>
</tr>
<tr>
<td>Accrued taxes, rents, royalties, and sundry expenses</td>
<td>1,064,848</td>
<td>1,066,114</td>
</tr>
<tr>
<td>Balance of maximum liability to December 31, 1944 under employees’ retirement plan (present plan)</td>
<td>290,000</td>
<td>—</td>
</tr>
<tr>
<td>Employees’ war bond deductions</td>
<td>63,318</td>
<td>58,750</td>
</tr>
<tr>
<td>Provision for Federal income and excess profits taxes</td>
<td>1,924,873</td>
<td>2,412,040</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>$5,379,709</td>
<td>$5,525,801</td>
</tr>
<tr>
<td>Store managers’ security deposits and deposits on leases</td>
<td>118,296</td>
<td>115,723</td>
</tr>
<tr>
<td><strong>Reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-insurance</td>
<td>136,368</td>
<td>204,956</td>
</tr>
<tr>
<td>Pensions</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Store front replacements</td>
<td>47,464</td>
<td>58,020</td>
</tr>
<tr>
<td>Post-war adjustments in raw materials</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td><strong>Capital Stock (see Notes 3 and 8)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Preferred—5% Cumulative Convertible (redeemable at $105 per share), par value $100 each:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized 100,000 shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued 98,260 shares</td>
<td>9,826,000</td>
<td>9,826,000</td>
</tr>
<tr>
<td>Less 28,855 shares converted into common in 1944 and 2,366 shares in 1943</td>
<td>2,885,500</td>
<td>236,600</td>
</tr>
<tr>
<td><strong>Less: Held in treasury, 1 share</strong></td>
<td>6,940,500</td>
<td>9,589,400</td>
</tr>
<tr>
<td>Held in sinking fund for retirement, 3,734 shares in 1944 and 3,732 shares in 1943</td>
<td>373,400</td>
<td>373,200</td>
</tr>
<tr>
<td><strong>Common—par value $1 each:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized (including 164,175 shares reserved in 1944 and 276,483 shares in 1943 for issuance on conversion of preferred stock)—1,360,000 shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued 1,006,629 shares in 1944 and 927,162 shares in 1943 (par value $1,006,629 in 1944, $927,162 in 1943) (see Note 9)</td>
<td>3,804,396</td>
<td>1,155,496</td>
</tr>
<tr>
<td><strong>Earned Surplus (see Notes 6 and 8)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$21,819,929</td>
<td>$22,165,109</td>
</tr>
</tbody>
</table>

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**and Subsidiary Companies**
Melville Shoe Corporation  
and Subsidiary Companies

STATEMENT OF CONSOLIDATED PROFIT AND LOSS  
FOR THE YEARS ENDED DECEMBER 31, 1944 AND 1943

<table>
<thead>
<tr>
<th>Sales:</th>
<th>1944</th>
<th>1943</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store and factory sales</td>
<td>$70,290,044</td>
<td>$68,526,432</td>
</tr>
<tr>
<td>Store sales</td>
<td>$37,051,163</td>
<td></td>
</tr>
<tr>
<td>Factory sales</td>
<td>33,238,881</td>
<td></td>
</tr>
<tr>
<td>Less Inter-company sales</td>
<td>15,922,903</td>
<td>16,962,393</td>
</tr>
<tr>
<td><strong>Net Sales</strong></td>
<td><strong>54,367,141</strong></td>
<td><strong>51,564,039</strong></td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>40,075,596</td>
<td>36,240,026</td>
</tr>
<tr>
<td><strong>Deduct:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Store operating, selling, general and administrative expenses</td>
<td>9,822,565</td>
<td>10,121,910</td>
</tr>
<tr>
<td>Depreciation</td>
<td>443,918</td>
<td>510,781</td>
</tr>
<tr>
<td>Interest paid on store managers' deposits, etc.</td>
<td>7,145</td>
<td>6,278</td>
</tr>
<tr>
<td>Additional provision for pensions</td>
<td>9,875</td>
<td>11,005</td>
</tr>
<tr>
<td>Employees' retirement plan of Melville Shoe Corporation—present plan (Note 5)</td>
<td>290,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Miscellaneous charges</td>
<td>65,293</td>
<td>55,862</td>
</tr>
<tr>
<td><strong>Total Deductions</strong></td>
<td><strong>10,638,796</strong></td>
<td><strong>10,805,836</strong></td>
</tr>
<tr>
<td><strong>Add:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit on real estate operations</td>
<td>120,661</td>
<td>55,100</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>111,117</td>
<td>100,845</td>
</tr>
<tr>
<td><strong>Total Additions</strong></td>
<td><strong>231,778</strong></td>
<td><strong>155,945</strong></td>
</tr>
<tr>
<td><strong>Net Income before Federal income and excess profits taxes</strong></td>
<td><strong>$3,884,527</strong></td>
<td><strong>$4,674,122</strong></td>
</tr>
</tbody>
</table>

**Provision for Federal income and excess profits taxes:**

<table>
<thead>
<tr>
<th></th>
<th>1944</th>
<th>1943</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income taxes</td>
<td>1,503,401</td>
<td>1,512,191</td>
</tr>
<tr>
<td>Excess profits taxes (after deducting $20,925 post-war refund in 1944 and $78,875 in 1943)</td>
<td>188,329</td>
<td>709,862</td>
</tr>
<tr>
<td></td>
<td>1,691,730</td>
<td>2,222,053</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td><strong>$2,192,797</strong></td>
<td><strong>$2,452,069</strong></td>
</tr>
</tbody>
</table>
Melville Shoe Corporation
and Subsidiary Companies

STATEMENT OF CONSOLIDATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1944

Consolidated earned surplus as of December 31, 1943 .................... $5,589,013
Net income for the year ended December 31, 1944 ......................... 2,192,797

DEDUCT:
Cash dividends paid:
Preferred stock—5% ........................................ $ 460,759
Common stock—$2.00 per share ................................ 1,854,345

Premium paid on purchase of preferred 5% cumulative convertible stock .... 10 2,315,114

Consolidated earned surplus as of December 31, 1944 ..................... $5,466,696

NOTES TO CONSOLIDATED BALANCE SHEET,
STATEMENTS OF PROFIT AND LOSS AND SURPLUS

(1) 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. The Companies continued the policy of determining inventories by the elective method ("last-in, first-out") provided for in the Revenue Act of 1939 except as to approximately $1,286,000 at December 31, 1944 and $1,336,000 at December 31, 1943 stated at the lower of cost or replacement market (cost being computed principally on the basis of current averages by classes, with some materials on the basis of specific invoice cost).

(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 Company, subject to expenditures during or before 1946 of an additional amount estimated at $700,000 to extend it for two further periods of twenty-one years each. Provision for amortization of the building is being made over the current period of the lease. It is not the Company's intention to renew the lease at expiration of the current period.
(3) On August 2 of each year, so long as any preferred stock remains outstanding in the hands of others than the Company, the Company is required to 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, 1945 is $310,747. (Under the suggested amendments to the Certificate of Incorporation referred to in Note 8 it is proposed that this payment due August 2, 1945 be eliminated and subsequent payments be modified.)

The Company, at the option of the board of directors, may at any time on thirty days' notice call for redemption the whole, or may from time to time call for redemption any part, of the preferred stock at $105 per share plus an amount equal to all unpaid dividends accrued thereon to the date fixed for redemption. The date fixed for redemption shall be a quarterly dividend payment date. The total amount which would have been required to redeem on February 1, 1945 the 65,670 shares outstanding on December 31, 1944 was $6,977,437; cash in the preferred stock retirement fund amounted to $1,160,225 at December 31, 1944.

(4) The J. F. McElwain Company, a subsidiary, has made shipments under contracts with the United States Government which contracts are subject to renegotiation under the Renegotiation Act. Renegotiation proceedings for the year ended December 31, 1943 have been concluded and an agreement entered into with the United States Government to the effect that no excessive profits were received by or accrued to the Company during the year ended December 31, 1943. Renegotiation proceedings for the current year have not yet been started but the Company is of the opinion that no substantial liability will result therefrom.

(5) At a special meeting on December 15, 1944 the Stockholders voted approval of the Employees' Retirement Plan (present plan) of Melville Shoe Corporation and recently the Bureau of Internal Revenue gave its approval. There has been charged in the statement of Consolidated Profit and Loss $100,000 for the year ended December 31, 1943 and $290,000 for the year ended December 31, 1944 representing the maximum liability of the Company under the plan through December 31, 1944, although it is not contemplated that all of this amount will be required. In the event that the plan is continued from year to year the maximum additional payments on account of past services will aggregate approximately
$600,000. The right to reduce or suspend such payments or to discontinue the plan is reserved by the Company. The plan is available to all employees of Melville Shoe Corporation who have been in the employ of the Company for five years and who have reached the age of 30 years but who are not yet 65 years old, with the exception of the president and vice president in charge of finance.

(6) Earned surplus amounting to $373,500 has been appropriated through the purchase of 3,735 shares of preferred 5% cumulative convertible stock held in treasury and in sinking fund for retirement. (See also Note 8.)

(7) The J. F. McElwain Company, a subsidiary, is presently negotiating a new labor agreement, which broadens the vacation-with-pay clause. If this agreement is accepted and approval obtained from the War Labor Board, the agreement will be retroactive to January 1, 1945. Under this agreement, the company estimates that the additional vacation payments to be made in 1945, based upon employee earnings in 1944, will approximate $100,000.

(8) Since December 31, 1944, by amendment to the Certificate of Incorporation, the amount of the authorized capital stock and of the capital of the Company has been reduced by $373,500, representing the par value of 3,735 shares of preferred stock of the Company purchased and retired; and 28,857 shares of preferred stock converted into common stock have been eliminated. The Board of Directors has also approved for submission to, and vote by, the stockholders at a meeting called for April 24, 1945 additional amendments to the Certificate of Incorporation (1) changing the number of shares of authorized preferred stock to 80,000; (2) changing the annual dividend rate on the preferred stock from 5% to 4% from and after May 1, 1945; (3) releasing to the general funds of the Company the balance of the Retirement Fund ($1,160,225 at December 31, 1944) which remains unexpended on May 1, 1945. (The Company will offer to purchase on May 1, 1945 at the redemption price, $105 per share, any shares of preferred stock tendered to it prior to the vote on the proposed amendments, provided the amendments are adopted); and (4) making the next annual payment into the Retirement Fund payable August 2, 1946 (instead of August 2, 1945) and excluding in the computation of the amount of such payments in future the $3,259,200 par value of preferred stock issued but reacquired and retired or converted and eliminated prior to May 1, 1945.

(9) The excess of common stock capital liability over the aggregate par value of issued shares, amounting to $2,797,767 as at December 31, 1944, represents capital arising from conversion of 87,733 shares of preferred stock into 28,655 shares of preferred stock into 87,733 shares of common stock ($228,334 as at December 31, 1942 and 1943 from conversion of 2,666 shares of preferred stock into 8,266 shares of common stock) and is included in common stock capital because of statutory requirements and resolution of the Board of Directors.
ACCOUNTANTS’ REPORT

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

We have examined the Consolidated Balance Sheet of the Melville Shoe Corporation and Subsidiary Companies as of December 31, 1944, and the statements of Consolidated Profit and Loss and Surplus for the year then ended, 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 of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary; it was not practicable to confirm receivables from United States Government departments, and we have satisfied ourselves as to these items by means of other auditing procedures.

In our opinion, the accompanying Consolidated Balance Sheet and related statements of Consolidated Profit and Loss and Surplus present fairly the consolidated position of the Melville Shoe Corporation and Subsidiary Companies at December 31, 1944 and the results of their 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.

March 7, 1945
# Stores, Sales and Earnings — 1930-1944

<table>
<thead>
<tr>
<th>Year-end</th>
<th>Stores at Year-end</th>
<th>Pairs Sold</th>
<th>Pairs per Store</th>
<th>Total Sales at Retail</th>
<th>Factory Sales</th>
<th>Combined Sales</th>
<th>Wages and Compensation</th>
<th>Total Direct Taxes</th>
<th>Combined Income Before Federal I &amp; E P Taxes†</th>
<th>Combined Earnings after Taxes</th>
<th>Earnings per common share*</th>
<th>Dividends per common share**</th>
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<tbody>
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<td>1930</td>
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<td>6,515,190</td>
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<td>$28,654,300</td>
<td>$12,620,525</td>
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<td>$525,925</td>
<td>$2,305,797</td>
<td>$2,061,099</td>
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<td>$1.00</td>
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<td>5,851,530</td>
<td>512,681</td>
<td>1,884,777</td>
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<td>588</td>
<td>7,666,668</td>
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<td>609</td>
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<td>4,282,927</td>
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<td>690</td>
<td>10,314,791</td>
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<td>38,155,438</td>
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<td>60,355,174</td>
<td>9,976,537</td>
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<td>3,344,873</td>
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<td>19,033,609</td>
<td>55,095,894</td>
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<td>1.50</td>
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<tr>
<td>1941</td>
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<td>4,753,348</td>
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<td>1942</td>
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<td>13,990,280</td>
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<td>1943</td>
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<td>15,623</td>
<td>39,238,096</td>
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<td>1944</td>
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<td>2.00</td>
</tr>
</tbody>
</table>

†Actual union of Melville Shoe Corporation and J. F. McElwain Company did not occur until December 22, 1939.

*On basis of the capitalization of Melville Shoe Corporation as of December 31, 1944, which is after giving effect to changes in the number of common shares outstanding.

**On stock outstanding each year. Adjusted, before 1940, on basis of reclassification of stock incident to union with J. F. McElwain Co., which involved exchange of 1 share of old common stock for 2 shares of new common stock and 1/10 share of 5% preferred stock.
Stores of Melville Shoe Corporation
as at December 31, 1944

JOHN WARD—10 STORES
New York (4)   Brooklyn (2)   Bronx
Newark         Philadelphia    Washington

THOM McAN—539 STORES (Including Leased Departments)
in 302 cities in 39 states and the District of Columbia

ALABAMA (4)
Birmingham (2)  Mobile
Montgomery

ARIZONA (2)
Phoenix
Tucson

ARKANSAS (2)
Fort Smith
Little Rock

COLORADO (2)
Denver (2)

CONNECTICUT (20)
Bridgeport (2)
Bristol
Danbury
Derby
Hartford (3)
Meriden
Middletown
New Britain
New Haven (3)
New London
Norwich
South Manchester
South Norwalk
Stamford
Waterbury

DELAWARE (2)
Wilmington (2)

DISTRICT OF COLUMBIA (4)
Washington (4)

FLORIDA (10)
Jacksonville (2)
Lakeland
Miami (a)
Pensacola
St. Petersburg
Tampa
West Palm Beach
Ybor City

INDIANA (15)
Anderson
Elkhart
Evansville
Fort Wayne (a)
Gary
Hammond
Indianapolis (3)
Lafayette
Marion
Muncie
Richmond
South Bend

IOWA (2)
Davenport
Des Moines

KANSAS (1)
Wichita

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

LOUISIANA (6)
Baton Rouge
Monroe
New Orleans (3)
Shreveport

*Indicates Leased Department
<table>
<thead>
<tr>
<th>MAINE (2)</th>
<th>Lewiston</th>
<th>Portland</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARYLAND (12)</td>
<td>Baltimore (10)</td>
<td>Cumberland</td>
</tr>
<tr>
<td>Michigan (27)</td>
<td>Ann Arbor</td>
<td>Battle Creek</td>
</tr>
<tr>
<td>MINNESOTA (5)</td>
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<td>Minneapolis (3)</td>
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<td>MISSISSIPPI (5)</td>
<td>Biloxi</td>
<td>Greenville</td>
</tr>
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<td>MISSOURI (16)</td>
<td>Kansas City (3)</td>
<td>Maplewood</td>
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<tr>
<td>NEBRASKA (2)</td>
<td>Lincoln</td>
<td>Omaha</td>
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<tr>
<td>NEW HAMPSHIRE (3)</td>
<td>Manchester</td>
<td>Portsmouth* (2)</td>
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<tr>
<td>NEW JERSEY (36)</td>
<td>Asbury Park</td>
<td>Atlantic City</td>
</tr>
<tr>
<td></td>
<td>Harrison</td>
<td>Hoboken</td>
</tr>
<tr>
<td></td>
<td>Albany (3)</td>
<td>Amsterdam</td>
</tr>
</tbody>
</table>
### NORTH CAROLINA (7)
- Asheville
- Charlotte
- Durham
- Greensboro
- Raleigh
- Wilmington
- Winston Salem

### OHIO (41)
- Akron (2)
- Alliance
- Canton
- Cincinnati (5)
- Cleveland (11)
- Columbus (3)
- Dayton (3)
- Hamilton
- Lakewood
- Lima
- Lorain
- Mansfield
- Norwood
- Portsmouth
- Springfield
- Steubenville
- Toledo (3)
- Warren
- Youngstown (2)

### OREGON (40)
- Portland
- Eugene
- Salem

### PENNSYLVANIA (41)
- Allentown
- Altoona
- Beaver Falls
- Braddock
- Chester
- Easton
- Erie (2)

### RHODE ISLAND (11)
- Newport
- Pawtucket (2)
- Providence (5)
- Westerly
- West Warwick
- Woonsocket

### SOUTH CAROLINA (5)
- Charleston* (2)
- Columbia
- Greenville
- Spartanburg

### TENNESSEE (6)
- Chattanooga
- Johnson City
- Knoxville
- Memphis (2)
- Nashville

### TEXAS (24)
- Abilene
- Amarillo
- Austin
- Beaumont
- Corpus Christi

### UTAH (2)
- Ogden
- Salt Lake City

### VERMONT (1)
- Burlington

### VIRGINIA (7)
- Lynchburg
- Newport News
- Norfolk
- Portsmouth* (2)
- Richmond
- Roanoke

### WEST VIRGINIA (4)
- Charleston
- Clarksburg
- Huntington
- Wheeling

### WISCONSIN (6)
- Madison
- Milwaukee (3)
- Oshkosh
- West Allis

*Indicates Leased Department
MELVILLE SHOE CORPORATION

Executive Offices: 25 West 43rd Street, New York

J. F. McELWAINE COMPANY

Factories: Nashua (4) and Manchester (7), N. H.
General Offices: 103 Temple Street, Nashua, N. H.
Boston Office: 140 Federal Street