ABRAHAM & STRAUS INC.

BROOKLYN, NEW YORK

I REPORT

FOR THE SIX MONTHS PERIOD
ENDING JULY 31, 1942

BOARD OF DIRECTORS

Edward C. Blum

Walter Rothschild

Hugh Grant Straus

Robert E. Blum

Louis E. Kirstein

Fred Lazarus, Jr.

Michael Schaap

OFFICERS

Edward C. Blum	Chairman of the Board
Walter Rothschild	President
Hugh Grant Straus	Vice-President-Treasurer
Robert E. Blum	Vice-President-Secretary
Kenneth C. Richmond	Vice-President
Richard H. Brown	Vice-President
Sidney L. Solomon	Vice-President
Mrs. Dorothy E. Swenson	Vice-President
Reuben W. Askanase	Vice-President
Rollin H. Steiger	Assistant Secretary

ABRAHAM & STRAUS INC.

November 23, 1942

To the Stockholders:

On behalf of the Board of Directors there is presented herewith the report of the operation of your company for the six months' period ended July 31, 1942.

Sales during the six months' period amounted to \$12,054,137 — an increase of 7.68%.

The net profit earned on the above sales, as compared to the corresponding period last year, follows:

	Six months' period ended July 31, 1942	1941
Net profit, before federal taxes on income......	\$ 538,896	\$ 215,689
Provision for federal taxes on income.........	250,000	70,000
Net profit	\$ 288,896	\$ 145,689
Earnings per share common	\$ 1.56	\$ .63
Dividends paid per share common	\$ 1.00	\$ 1.00

Your attention is directed to notes 1, 2 and 3 to financial statements appearing elsewhere in this report explaining certain adjustments necessary in order to present the above comparative statement and the effect of the Lifo method of inventory valuation.

Your Board of Directors recently authorized a change in the fiscal year to the twelve months ending July 31st. This report, therefore, covers only a six months' period. This decision was largely influenced through managerial advantages flowing from this change. Under the revised fiscal year, the greater part of the year's profit will be earned during the first six months and thus management believes it will be in a better position to formulate policies regarding operations and dividends for the balance of the year. In addition, merchandise inventories and customers' accounts receivable are usually lower at July 31st so that the end of year closing can be facilitated.

The impact of war is being experienced in every phase of retailing. Governmental regulations have been issued directing the flow of raw materials into industry so that there has been a curtailment in many lines of merchandise heretofore carried. A portion of our inventory has been frozen by governmental order and cannot be moved until released by the government. Orders have also been issued establishing retail price ceilings, curtailing credit, deliveries and other services heretofore regarded as in integral part of department store operation. Under a contemplated inventory control, restrictions may be established limiting inventory to a ratio of sales comparable to the past few years. All of these restrictions necessarily affect the future of retailing. However, with the country at war it is essential that our business program be adjusted to fit into the pattern determined by the national war effort. Compliance with such regulations affords an opportunity to participate in and cooperate with the war program, and management has created a special Compliance Section in its Research Department charged with the responsibility for interpreting and administering governmental regulations.

308 members of our organization are now serving with the armed forces. The remaining members and those recently affiliated with us, recognize the difficult problems which lie ahead and the adjustments which may be entailed. The organization is prepared, with the help of an understanding and informed public, to carry on under war time conditions and to join in the common effort to speed the day of ultimate victory.

Yours very truly,

WALTER ROTHSCHILD,
President

ABRAHAM & STRAUS INC.

COMPARATIVE PROFIT AND LOSS

	Six months ended July 31, 1942 (audited)	Six months ended July 31, 1941 (unaudited)
NET SALES (including sales of leased departments)	$12,054,137	$11,194,569
COST OF GOODS SOLD AND EXPENSES, exclusive of items listed below (See Note 3)	11,107,124	10,592,919
	$ 947,013	$ 601,650
DEDUCT:		
Depreciation (See Note 4)	$ 193,343	$ 192,616
Maintenance and repairs	162,403	163,311
Interest on indebtedness and amortization of debt expense	39,022	15,162
	$ 394,768	$ 371,089
	$ 552,245	$ 230,561
OTHER DEDUCTIONS—net:		
Losses from properties rented to others, including depreciation of $7,566 for each period	$ 14,503	$ 16,061
Less interest and dividends earned on securities	1,154	1,189
	$ 13,349	$ 14,872
NET PROFIT, before federal taxes on income	$ 538,896	$ 215,689
PROVISION FOR FEDERAL TAXES ON INCOME:		
Normal tax and surtax	$ 112,000	$ 44,000
Excess profits tax	138,000	26,000
	$ 250,000	$ 70,000
NET PROFIT	$ 288,896	$ 145,689

ABRAHAM &

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COMPARATIVE

ASSETS

	July 31, 1942	January 31, 1942
Current Assets:		
Cash on demand deposit and on hand	$ 1,959,674	$ 1,004,489
Customers' accounts receivable:		
Regular retail, less reserves of $45,000 at July 31, 1942 and $85,000 at January 31, 1942	1,178,422	2,101,100
Instalment (the terms on a small portion of which extend beyond one year), less reserves of $104,000 at July 31, 1942 and $172,000 at January 31, 1942	1,113,393	1,695,804
Merchandise on hand and in transit (See Note 3)	6,251,105	3,646,183
Sundry debtors	125,708	108,843
	$10,628,302	$ 8,556,419
Other Assets:		
Real estate not used in operations:		
Land—as appraised at January 31, 1933 (below cost)	$ 105,000	$ 105,000
Land and buildings—at cost less depreciation of $101,907 at July 31, 1942 and $94,341 at January 31, 1942	731,987	739,553
Investments and advances (including investments in and advances to joint purchasing and service organizations of $46,075 at July 31, 1942 and $60,975 at January 31, 1942)—at cost	57,118	74,588
	$ 894,105	$ 919,141
Fixed Assets:		
Buildings and building improvements on leased land—at cost, less write-down of $1,259,668 (See Note 4) as of January 31, 1933, and less depreciation of $2,575,285 at July 31, 1942 and $2,446,260 at January 31, 1942	$ 3,912,225	$ 4,038,615
Store fixtures—at cost, less write-down of $284,046 (See Note 4) as of January 31, 1933, and less depreciation of $1,057,391 at July 31, 1942, and $1,076,532 at January 31, 1942	648,906	665,190
	$ 4,561,131	$ 4,703,805
Deferred Charges:		
Supplies	$ 146,629	$ 76,312
Unexpired insurance, prepaid taxes and miscellaneous	181,176	98,237
Unamortized expenses incurred in leasing premises to F. W. Woolworth Co.	89,077	90,877
Unamortized debt expense	3,812	2,381
	$ 420,694	$ 267,807
Goodwill—at nominal amount	$ 1	$ 1
	$16,504,233	$14,447,173

STRAUS INC.
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LANCE SHEET

LIABILITIES

	July 31, 1942	January 31, 1942
CURRENT LIABILITIES:		
Accounts payable—trade	$ 763,420	$ 996,993
Accrued liabilities:		
Compensation	105,690	182,262
Federal taxes on income (See Note 3):		
Year ended January 31, 1942	183,244	725,000
Six months ended July 31, 1942	250,000	——
Other taxes	188,192	140,539
Interest	25,138	8,500
Miscellaneous	71,052	107,956
Sundry creditors	67,372	46,795
	$ 1,654,108	$ 2,208,045
LONG-TERM DEBT:		
Notes payable to bank, 2%, due March 30, 1945	$ 983,000	$ ——
Fifteen-year 3% notes, due October 1, 1950 (sinking fund payment of $100,000 is required August 15, 1943 and $150,000 annually thereafter)	2,350,000	850,000
	$ 3,333,000	$ 850,000
RESERVE FOR POSSIBLE ADDITIONAL ASSESSMENTS OF TAXES	$ 68,667	$ 26,911
CAPITAL STOCK AND SURPLUS:		
Capital stock:		
Preferred, $4\frac{3}{4}$% cumulative, par value $100 a share, maximum redemption price $105 a share (See Note 5):		
Authorized and issued, 20,000 shares at July 31, 1942 and 22,739 shares at January 31, 1942, reduced from 25,000 shares by repurchase and amendment of certificate of incorporation	$ 2,000,000	$ 2,273,900
Less repurchased, 2,739 shares at January 31, 1942—retired by amendment to certificate of incorporation during June, 1942	——	273,900
Outstanding, 20,000 shares	$ 2,000,000	$ 2,000,000
Common:		
Authorized, 250,000 shares of no par value		
Issued and outstanding, 155,155 shares	1,405,325	1,405,325
Earned surplus (See Note 6)	8,043,133	7,956,892
	$11,448,458	$11,362,217
	$16,504,233	$14,447,173

ABRAHAM & STRAUS INC.

EARNED SURPLUS

SIX MONTHS ENDED JULY 31, 1942

Balance, beginning of period	$7,956,892	
Add net profit (See Note 3)	288,896	
		$8,245,788
Deduct dividends on:		
$4\frac{3}{4}\%$ preferred stock—two quarterly dividends of $1.1875 each to July 25, 1942	$ 47,500	
Common stock—$1.00 a share	155,155	
		202,655
Balance, end of period (See Note 6)		$8,043,133

ABRAHAM & STRAUS INC.

NOTES TO FINANCIAL STATEMENTS

(1) In the unaudited semi-annual report to stockholders for the six months ended July 31, 1941, net profit after provision for federal taxes on income was shown at $214,659. In placing that figure on a basis comparable with the net profit for the six months ended July 31, 1942, such profit was reduced to $145,689. The reduction of $68,970 represents the Lifo adjustment of $122,970 less a decrease of $54,000 in the provision for federal taxes on income. These two adjustments are explained more fully in Notes 2 and 3.

(2) The provision of $70,000 for federal taxes on income for the six months ended July 31, 1941, compares with $124,000 shown in the report issued for that period, a reduction of $54,000; of this amount $70,000 results from the Lifo adjustment, as explained in Note 3, reduced by $16,000 for the difference between estimated and actual tax rates.

(3) As explained in the report for the year ended January 31, 1942, the last-in first-out (Lifo) method of inventory valuation, by the use of an index of retail price changes, was adopted in the preparation of the report for that year. This method was continued for the six months ended July 31, 1942. In order to provide a comparison, the figures for the six months ended July 31, 1941, which had been published prior to the adoption of the last-in first-out method of inventory valuation, have been adjusted in the accompanying profit and loss statement to that method. For this purpose a general price index, rather than departmental price indices, was used because departmental price indices as of July 31, 1941 are not available. This adjustment and the use of the Lifo method for the six months ended July 31, 1942, have resulted in the following:

	Six months ended July 31, 1942	Six months ended July 31, 1941	Year ended January 31, 1942
Reduction of merchanise inventories with an approximately corresponding reduction of net profit per books before provision for federal taxes on income	$100,237	$122,970	$364,356
Reduction in provision for federal taxes on income	70,000	70,000	265,000
Reduction in net profit after federal taxes on income	$ 30,237	$ 52,970	$ 99,356

The use of the Lifo method based upon an index of retail price changes is subject to the approval of the Treasury Department. If the use of this method is not ultimately approved, the taxable income of the Company would be increased by approximately the aforementioned reduction in inventories and the federal tax liability would be increased by the reduction in the provision shown in the preceding tabulation.

The net profit, restated on the basis of the retail inventory method formerly employed, and with the tax provisions based on that method, would be as follows:

	Before federal taxes on income	Federal taxes on income	Net income
Year ended January 31, 1942	$2,026,646	$990,000	$1,036,646
Six months ended July 31, 1941	338,659	140,000	198,659
Six months ended July 31, 1942	639,133	320,000	319,133

(4) The amounts of $1,259,668 and $284,046 were written off to reduce the investments in building and fixtures made during the years ended January 31, 1930 and January 31, 1931 to replacement cost as of January 31, 1933. At the same time, leaseholds of $265,833 were written off.

(5) On or before June 1st of each year, the Corporation is required to expend for the repurchase of preferred stock the greater of (a) $25,000 or (b) 4% of the net profit after preferred dividends for the preceding fiscal year. The repurchases to July 31, 1942 exceeded by $274,381 the requirements to and including June 1, 1942.

(6) Of earned surplus, $3,845,414 at July 31, 1942 and $3,892,914 at January 31, 1942 were not available for payment of common stock dividends under terms of the indenture covering the fifteen-year notes.

(7) The accompanying financial statements as of July 31, 1942 and for the six months then ended and as at January 31, 1942 have been audited; those for the six months ended July 31, 1941 have not been audited inasmuch as that date did not represent the end of a fiscal year.

TOUCHE, NIVEN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

EIGHTY MAIDEN LANE

NEW YORK

November 7, 1942

To the Board of Directors of Abraham & Straus, Inc.:

We have examined the balance sheet of Abraham & Straus, Inc. as of July 31, 1942 and the statements of profit and loss and surplus for the six months then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company 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 has been the established procedure of the Company to take physical inventories in all departments around January 31st, the end of its fiscal year heretofore. Because the amounts of merchandise on hand were unusually high, and because of the large number of changes in personnel as a result of war conditions, physical inventories around July 31, 1942 in all departments were considered by the Company to be impracticable. Physical inventories were taken in departments selected by the Company aggregating approximately 60% of the amount of total merchandise. The Company maintains perpetual inventory records on the customary retail inventory method followed by department stores and such records relative to the remaining departments were subjected to accounting tests to establish their credibility. Appropriate adjustments were made to the book inventory amounts of such departments based upon past experience and the results found in the departments inventoried. Accordingly we have satisfied ourselves as to the substantial fairness of the amounts at which the inventories are stated.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of Abraham & Straus, Inc. at July 31, 1942, and the results of its operations for the six months, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Niven & Co.

ABRAHAM & STRAUS INC.

BROOKLYN, NEW YORK

A. REPORT

FOR THE TWELVE MONTHS PERIOD
ENDING JULY 31, 1943

BOARD OF DIRECTORS

Edward C. Blum
Walter Rothschild
Hugh Grant Straus
Robert E. Blum*
Fred Lazarus, Jr.
Michael Schaap
Edward J. Frost

OFFICERS

Edward C. Blum	Chairman of the Board
Walter Rothschild	President
Hugh Grant Straus	Vice-President
Robert E. Blum*	Vice-President-Secretary
Kenneth C. Richmond	Vice-President-Treasurer
Richard H. Brown	Vice-President
Sidney L. Solomon	Vice-President
Mrs. Dorothy E. Swenson	Vice-President
Reuben W. Askanase	Vice-President
Rollin H. Steiger	Assistant Secretary

* In Military Service

ABRAHAM & STRAUS INC.

November 4, 1943

To the Stockholders:

On behalf of the Board of Directors there is presented herewith the annual report of the operation of your Company for the fiscal year ended July 31, 1943. This is the first twelve-month report issued since the fiscal year was changed from a year ending on January 31st.

Net sales for the year were the largest in the history of the Company and amounted to $31,157,476, an increase of $3,081,464 or 10.98%.

Net profit as compared to the corresponding period last year follows:

	Year ended July 31 1943	1942
Net profit, before federal taxes on income	$2,576,351	$1,985,497
Provision for federal taxes on income	$1,490,000	$ 905,000
Net profit	$1,086,351	$1,080,497
Earnings per share common	$ 6.40	$ 6.35
Dividends paid per share common	$ 3.50	$ 3.50

Current assets of your Company at July 31, 1943 amounted to $9,991,657 and current liabilities to $1,285,004, or a ratio of 7.8 to 1. Cash and government securities, other than tax anticipation notes, amounted to $4,285,971 at July 31, 1943 compared with $1,959,674 at July 31, 1942. Reference to the balance sheet will indicate a substantial decrease in inventory. To comply with War Production Board Order L219, inventories were reduced in an orderly manner. With inventory at presently allowed levels, it is expected that our sales volume can be maintained on a satisfactory basis during the current year. The LIFO method of evaluating inventories has been continued as is more fully explained in Note (1) to the financial statements.

During the year several transactions were consummated which affected the capital structure of your Company, as follows: 1,000 shares of outstanding 4¾% preferred stock were acquired and retired at a cost of $82.58 per share plus accrued dividends. Upon completion of this transaction, 19,000 shares of such preferred stock remain outstanding. Bank indebtedness was reduced by $483,000, leaving an amount due of $500,000. Pursuant to the sinking fund provision of the Indenture, under which the Company's 3% Notes are outstanding, $300,000 face amount of such 3% Notes have been retired and, in addition, $100,000 face amount of such 3% Notes were purchased at 2% premium and redeemed. There now remain outstanding $1,950,000 face amount of 3% Notes.

Our main warehouse lease, which would have expired on January 31, 1944, has been renewed for an additional 10 years at a reduced rental. Your Company had owned a site for several years on which it was originally planned to construct an additional warehouse. Changing conditions indicated the advisability of revising those plans and during the past year this land was sold.

The continuance of the war has multiplied problems facing the retail industry. Shortages of materials, delayed deliveries from manufacturers, the further imposition of rationing and price controls, the curtailment of credit, and restrictions on customer deliveries present some of the more pressing problems. While the market for civilian supplies is tight, the recent effort of the Office of Civilian Requirements to develop a balanced program for the equitable distribution of available inventories between the military forces and the civilian population augurs well for an orderly flow of merchandise to the respective channels. Further, the constructive step of the Office of Civilian Requirements in attempting to avoid textile rationing through the voluntary elimination of excessive promotions of textiles has had our active support. While it may to some extent act as a deterrent on sales, nevertheless, it is our hope that this program will definitely postpone and may obviate the necessity for extending rationing to textiles.

The efforts of your Company are primarily being directed toward co-operation and successful operation in the war economy, but simultaneously postwar plans are being considered, particularly in lines now curtailed or completely eliminated where it is expected that the post-war demand will be exceedingly heavy. A careful survey is being undertaken and plans are being formulated to cushion the effect on our business of whatever adjustments may be necessary to meet post-war conditions.

Your Company's proximity to many military bases has afforded an opportunity to be of real service in the supplying of uniforms to the various branches of the Army and Navy. As a matter of interest, six metropolitan stores, of which we are one, have outfitted trainees at the largest WAVE Training Center in the United States located at Hunter College in New York City. This operation has been functioning through the cooperation of the Navy Department and has saved considerable time in the outfitting of the many thousand WAVES passing through this Training Center.

Because of the successful operation at the above Training Center, the same group of stores, with the addition of an outstanding store in Boston, in cooperation with the Navy Department have developed a plan for the centralized procurement and wholesale distribution of WAVE uniforms on a nation-wide basis. For this purpose a corporation known as Women's Naval Uniforms, Inc. has been organized.

To replace employees going into military service and into defense work, we have fairly generally substituted women in positions formerly occupied by men, considerably increased the number of part-time employees wishing to work only a portion of the week and recruited daily contingent employees from the ranks of college and high school students. With it all, however, we have endeavored to maintain our standards of customer service consistent with war restrictions. 822 members of our organization have joined various branches of the military service. Frequent letters received from many battle fields reveal that they are meeting their obligations with honor and distinction, and we pay tribute to their service in the defense of mankind. The employees who are standing by in these difficult days also deserve recognition. Their experience, in co-operation with the work of the Training Department, makes it possible for us to continue the traditions of service which we have endeavored to develop over the years. Management takes this occasion to acknowledge its indebtedness to the spirit of loyalty and co-operation manifest within our organization.

We record with deep regret the death of Louis E. Kirstein who had been a member of the Board of Directors of this Company since 1928. Mr. Edward J. Frost, President of Wm. Filene Sons Company of Boston, was elected as his successor to the Board. During the past year Mr. Kenneth C. Richmond, who had been Controller since 1930, was elected Treasurer of the Company.

Yours very truly,

WALTER ROTHSCHILD,

President.

ABRAHAM & STRAUS INC.

COMPARATIVE PROFIT AND LOSS

	Year ended July 31, 1943	Year ended July 31, 1942
NET SALES (including sales of leased departments)	$31,157,476	$28,076,012
COST OF GOODS SOLD AND EXPENSES, exclusive of items listed below (See Note 1)	27,750,970	25,259,771
	$ 3,406,506	$ 2,816,241
DEDUCT:		
Depreciation (See Note 2)	$ 356,034	$ 381,398
Maintenance and repairs	304,393	364,631
Interest on indebtedness, amortization of debt discount and premium of $2,000 (for the year ended July 31, 1943) on redemption of notes prior to maturity	86,110	56,295
	$ 746,537	$ 802,324
	$ 2,659,969	$ 2,013,917
OTHER DEDUCTIONS—net:		
Losses from properties rented to others after deducting depreciation of $15,131 for each period	$ 29,709	$ 29,757
Loss from sale of real estate	61,385	....
	$ 91,094	$ 29,757
Less interest and dividends earned on securities, etc.	7,476	1,337
	$ 83,618	$ 28,420
NET PROFIT BEFORE FEDERAL TAXES ON INCOME	$ 2,576,351	$ 1,985,497
PROVISION FOR FEDERAL TAXES ON INCOME		
Normal tax and surtax	$ 360,000	$ 543,000
Excess profits tax	1,130,000	362,000
	$ 1,490,000	$ 905,000
NET PROFIT (See Note 1)	$ 1,086,351	$ 1,080,497

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COMPARATIVE

ASSETS

	July 31, 1943	July 31, 1942
Current Assets:		
Cash on demand deposit and on hand	$ 1,783,673	$ 1,959,674
United States Government securities, at cost	2,502,298	....
Customers' accounts receivable:		
Regular retail, less reserves of $46,100 at July 31, 1943 and $45,000 at July 31, 1942	1,279,560	1,178,422
Instalment, less reserves of $78,500 at July 31, 1943 and $104,000 at July 31, 1942	792,905	1,113,393
Merchandise inventories on hand and in transit (See Note 1)	3,480,238	6,251,105
Sundry debtors	152,983	125,708
	$ 9,991,657	$10,628,302
Other Assets:		
Real estate not used in operations:		
Land, as appraised at January 31, 1933 (below cost)	$	$ 105,000
Land and buildings, at cost less depreciation of $117,039 at July 31, 1943 and $101,907 at July 31, 1942	726,472	731,987
Miscellaneous investments, advances and deposits—joint merchandising and service organizations and others—at cost	244,479	57,118
	$ 970,951	$ 894,105
Fixed Assets:		
Buildings and building improvements on leased land, at cost, less write-down of $1,259,668 (See Note 2) as of January 31, 1933, and less depreciation of $2,833,671 at July 31, 1943 and $2,575,285 at July 31, 1942	$ 3,676,372	$ 3,912,225
Store fixtures and equipment, at cost, less write-down of $284,046 (See Note 2) as of January 31, 1933 and less depreciation of $343,878 at July 31, 1943 and $1,057,391 at July 31, 1942	617,613	648,906
	$ 4,293,985	$ 4,561,131
Deferred Charges:		
Supplies	$ 126,343	$ 146,629
Prepaid insurance, taxes, etc.	192,969	184,988
Unamortized expenses incurred in leasing premises to F. W. Woolworth Co.	85,478	89,077
	$ 404,790	$ 420,694
Goodwill—at nominal amount	$ 1	$ 1
	$15,661,384	$16,504,233

STRAUS INC.

Corporation)

LANCE SHEET

LIABILITIES

	July 31, 1943	July 31, 1942
Current Liabilities:		
Accounts payable—trade	$ 602,963	$ 763,420
Accrued liabilities:		
Salaries and wages	119,970	105,690
Federal taxes on income (See Note 1), less United States Treasury savings notes of $1,005,400 at July 31, 1943	162,927	433,244
Other taxes	189,564	188,192
Miscellaneous	84,496	96,190
Sundry creditors	125,084	67,372
	$ 1,285,004	$ 1,654,108
Long-Term Debt:		
Notes payable to bank, 2%, due March 30, 1945	$ 500,000	$ 983,000
Fifteen-year 3% notes, due October 1, 1950 (annual sinking fund requirements have been satisfied to August 15, 1946 at which date, and annually thereafter, payment of $150,000 is required)	1,950,000	2,350,000
	$ 2,450,000	$ 3,333,000
Reserve for Possible Additional Assessments of Taxes	$ 110,340	$ 68,667
Capital Stock and Surplus:		
Capital stock:		
Preferred, 4¾% cumulative, par value $100 a share, maximum redemption price $105 a share (See Note 3):		
Authorized and issued, 20,000 shares reduced from 25,000 shares by repurchase and amendment of certificate of incorporation	$ 2,000,000	$ 2,000,000
Less repurchased, 1,000 shares at July 31, 1943	100,000	....
Outstanding, 19,000 shares at July 31, 1943 and 20,000 shares at July 31, 1942	$ 1,900,000	$ 2,000,000
Common:		
Authorized, 250,000 shares at no par value		
Issued and outstanding, 155,155 shares	1,405,325	1,405,325
Earned surplus (See Note 4)	8,510,715	8,043,133
	$11,816,040	$11,448,458
	$15,661,384	$16,504,233

ABRAHAM & STRAUS INC.

COMPARATIVE EARNED SURPLUS

	Year ended July 31, 1943	Year ended July 31, 1942
BALANCE, beginning of period	$8,043,133	$7,542,169
ADD:		
Net profit (See Note 1)	$1,086,351	$1,080,497
Discount (net) on repurchase of 4¾% preferred stock (premiums paid in prior years have been deducted from earned surplus and exceed this amount)	16,898	1,184
Transfer of excess reserve provisions in prior years—net	....	57,325
	$1,103,249	$1,139,006
	$9,146,382	$8,681,175
DEDUCT DIVIDENDS ON:		
4¾% preferred stock—quarterly dividends of $1.1875	$ 92,625	$ 95,000
Common stock—$3.50 per share in each year	543,042	543,042
	$ 635,667	$ 638,042
BALANCE, end of period (See Note 4)	$8,510,715	$8,043,133

NOTES TO FINANCIAL STATEMENTS

(1) As explained in the report for the year ended January 31, 1942, the last-in first-out (Lifo) method of determining inventory cost, based upon an index of retail price changes, was adopted in the preparation of the report for that year. The Lifo method was continued for the periods of six months ended July 31, 1942 and the year ended July 31, 1943. The effect upon the net profit for the past two and one-half years has been as follows:

	Total	Year ended July 31, 1943	Six months ended July 31, 1942	Year ended January 31, 1942
Reduction of merchandise inventories with an approximately corresponding reduction of net profit per books before provision for federal taxes on income	$498,486	$33,893	$100,237	$364,356
Reduction in provision for federal taxes on income	373,550	27,450	81,100	265,000
Reduction in net profit after federal taxes on income	$124,936	$ 6,443	$ 19,137	$ 99,356

The use of the Lifo method based upon an index of retail price changes is subject to the approval of the taxing authorities. If the use of this method is not ultimately approved, the taxable income would be increased by approximately the aforementioned reduction of merchandise inventories ($498,486 in the two and one-half years to which it has been applied) and the federal taxes on income payable would be increased to the extent of the aforementioned reduction in taxes ($373,550 in the two and one-half years to which it has been applied).

A comparison of the net profit for the several periods on the Lifo basis and on the basis formerly employed (first-in first-out—Fifo) is as follows:

	Year ended July 31, 1943	Six months ended July 31, 1942	Year ended January 31, 1942
Lifo basis:			
Profit before provision for federal taxes on income	$2,576,351	$538,896	$1,662,290
Provision for federal taxes on income	1,490,000	250,000	725,000
Net income	$1,086,351	$288,896	$ 937,290
Fifo basis, formerly employed:			
Profit before provision for federal taxes on income	$2,610,244	$639,133	$2,026,646
Provision for federal taxes on income	1,517,450	331,100	990,000
Net income	$1,092,794	$308,033	$1,036,646

(2) The amounts of $1,259,668 and $284,046 were written off to reduce the investments in building and fixtures made during the years ended January 31, 1930 and January 31, 1931 to replacement cost as of January 31, 1933.

(3) On or before June 1st of each year, the Corporation is required to expend for the repurchase of preferred stock the greater of (a) $25,000 or (b) 4% of the net profit after preferred dividends for the preceding fiscal year. The repurchases to July 31, 1943 exceeded by $325,848 the requirements to and including June 1, 1943.

(4) Of earned surplus, $3,769,688 at July 31, 1943 and $3,845,414 at July 31, 1942 were not available for payment of common stock dividends under terms of the indenture covering the fifteen-year notes.

(5) The figures for the year ended July 31, 1943 have been audited. Those for the year ended July 31, 1942 include audited figures for the six months ended July 31, 1942 and a portion of the audited figures for the year ended January 31, 1942; no audit was made, however, as of July 31, 1941, the date required to be used in compiling comparative figures for the year ended July 31, 1942.

TOUCHE, NIVEN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

EIGHTY MAIDEN LANE

NEW YORK

October 26, 1943.

To the Board of Directors of Abraham & Straus, Inc.:

We have examined the balance sheet of Abraham & Straus, Inc. as of July 31, 1943 and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company 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.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of Abraham & Straus, Inc. at July 31, 1943, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, NIVEN & CO.

TOUCHE, NIVEN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

80 MAIDEN LANE

NEW YORK

October 20, 1943

To the Board of Directors of Abraham & Straus, Inc.

We have examined the balance sheet of Abraham & Straus, Inc. as of July 31,1943 and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company 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.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of Abraham & Straus, Inc. at July 31, 1943, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Niven & Co.

ABRAHAM & STRAUS INC.

BROOKLYN, NEW YORK

A REPORT

FOR THE TWELVE MONTHS PERIOD
ENDING JULY 31, 1944

BOARD OF DIRECTORS

Edward C. Blum	Robert E. Blum
Walter Rothschild	Fred Lazarus, Jr.
Hugh Grant Straus	Michael Schaap

OFFICERS

Edward C. Blum	Chairman of the Board
Walter Rothschild	President
Robert E. Blum	Vice-President-Secretary
Kenneth C. Richmond	Vice-President-Treasurer
Hugh Grant Straus	Vice-President
Sidney L. Solomon	Vice-President
Richard H. Brown	Vice-President
Mrs. Dorothy E. Swenson	Vice-President
Reuben W. Askanase	Vice-President
Rollin H. Steiger	Assistant Secretary

ABRAHAM & STRAUS INC.

October 25, 1944

To the Stockholders:

On behalf of the Board of Directors there is presented herewith the annual report of the operation of your Company for the fiscal year ended July 31, 1944.

Net sales for the year were the largest in the history of the Company and amounted to $34,927,193, an increase of $3,769,717 or 12.10% over those of the previous year.

Net profit as compared with that of the preceding fiscal year, was as follows:

	Year ended July 31 1944	1943
Net profit before Federal taxes on income	$2,723,009	$2,576,351
Provision for Federal taxes on income	1,770,000	1,490,000
Net profit	$ 953,009	$1,086,351
Earnings per share of common stock	$ 5.56	$ 6.40
Dividends paid per share of common stock	$ 3.50	$ 3.50

FINANCIAL

Current assets of your Company at July 31, 1944 amounted to $10,015,888, and current liabilities to $1,564,543, a ratio of 6.40 to 1 compared to current assets of $9,991,657 at July 31, 1943 and current liabilities of $1,285,004, a ratio of 7.78 to 1. Net working capital at July 31, 1944 was $8,451,345 compared to $8,706,653 at the close of the preceding fiscal year. The Lifo method of evaluating inventories has been continued, as is more fully explained in Note 1 to the financial statements.

During the year, the outstanding bank loan was reduced by the payment of $400,000, leaving a balance of $100,000 which matures in 1945. Since the close of the fiscal year, a further sinking fund payment of $150,000 was made against the outstanding 3% Notes due 1950, after which there remains outstanding $1,800,000 of such Notes.

EMPLOYEES' RETIREMENT PLAN

Your Company believing that a formal retirement plan is an important factor in the conduct of its business, adopted such a Retirement Plan. Details of the Plan were supplied at the special stockholders' meeting held in January, when it was approved by the stockholders. Formal approval was received from the Treasury Department on August 22, 1944, and the Plan is effective. There are various advantages which the Company expects will accrue through the adoption of the Plan, not the least of which is the maintenance of high employee morale by reason of a greater sense of security made possible under the Plan. A transfer from Earned Surplus to a Special Reserve Account, to cover past service benefits provided under the Plan, has been authorized and your attention is invited to Note 4 to the financial statements for further details.

GROUP LIFE INSURANCE PLAN

A Group Life Insurance Plan has also been put into effect under which in general every employee who has served the Company for five years and who earns less than $3,000 per year, has $750 of life insurance while in the Company's employ. The premium on this insurance coverage is paid entirely by the Company.

A & S FOUNDATION

In order to provide relief to needy employees, where there is no other source from which such assistance could be expected, the A & S Foundation was created. In addition the Foundation is enabled under its charter to make contributions for charitable, scientific and educational purposes.

TELEVISION AND RADIO

Television and improved radio reception through frequency modulation will present unusual promotional opportunities for department stores. Your Company is aggressively exploring these possibilities through experiments being undertaken by Metropolitan Television, Inc. which operates Station WABF and which is jointly owned by your Company and by Bloomingdale Bros. Inc.

OBSERVATIONS

In consequence of the wartime economy, difficulties have been experienced in the procurement of merchandise. Because of government demands, for example, the textile market has been particularly restricted. That the situation in many lines of merchandise may be eased with the achievement of final victory in Europe is seen in a recent statement by the War Production Board, which gave an indication of a possible relaxing of its controls at that time. Expectation that the present sales trend will continue is based on the large accumulated demands for articles which have not been available during the war, especially in home furnishings, and on the substantial increase in savings noted during the past few years. Changing conditions necessarily require careful inventory analysis, and a conservative policy has been adopted in placing future orders so that the Company should be in position to take full advantage of market conditions. The nature of our business is such that it will not face the reconversion problem that will confront many industries. Furthermore, our business area has not had an abnormal temporary increase in population due to war production, thus eliminating a special problem which will face many retail businesses. The transition from a war economy when it comes, nevertheless, will present many problems and careful plans are being made to meet them and to provide for the Company's continued progress.

The personnel problems of retailing have increased with the continuation of the war. Any improvement in this direction presumably will depend upon the progress of the war. Meanwhile, we are endeavoring to maintain adequate customer service. While our experienced organization has been depleted through enlistment and induction of 973 of our employees in the Armed Forces, we are glad to report that our present organization reflects the same spirit which has marked our employee relations for many years.

We record with sorrow the death of Mr. Edward J. Frost, a member of our Board of Directors.

Yours very truly,

WALTER ROTHSCHILD

President

ABRAHAM & STRAUS INC.

COMPARATIVE PROFIT AND LOSS

	Year ended July 31, 1944	Year ended July 31, 1943
Net Sales (including sales of leased departments)	$34,927,193	$31,157,476
Cost of Goods Sold and Expenses, exclusive of items listed below (See Note 1)	31,531,244	27,750,970
	$ 3,395,949	$ 3,406,506
Deduct:		
Depreciation	$ 326,562	$ 356,034
Maintenance and repairs	278,276	304,393
Interest on indebtedness and amortization of debt discount	70,337	86,110
	$ 675,175	$ 746,537
	$ 2,720,774	$ 2,659,969
Other Deductions—net		
Losses from property rented to others after deducting depreciation	$ 32,766	$ 29,709
Loss from sale of real estate		61,385
	$ 32,766	$ 91,094
Less interest and dividends earned on securities, etc.	35,001	7,476
	$ *2,235**	$ 83,618
Profit Before Federal Taxes on Income	$ 2,723,009	$ 2,576,351
Provision for Federal Taxes on Income	$ 1,770,000	$ 1,490,000
Net Profit (See Note 1)	$ 953,009	$ 1,086,351

**Loss*

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COMPARATIV

ASSETS

	July 31, 1944	July 31, 1943
Current Assets:		
Cash on demand deposit and on hand	$ 1,853,277	$ 1,783,673
United States Government securities, at cost	2,200,156	2,502,298
Customers' accounts receivable:		
Regular retail, less reserves of $50,500 at July 31, 1944, and $46,100 at July 31, 1943	1,311,293	1,279,560
Instalment, less reserves of $78,000 at July 31, 1944, and $78,500 at July 31, 1943	776,020	792,905
Merchandise inventories on hand and in transit (See Note 1)	3,663,625	3,480,238
Sundry debtors	211,517	152,983
	$10,015,888	$ 9,991,657
Other Assets:		
Real estate not used in operations—Land and buildings, at cost less depreciation of $132,432 at July 31, 1944 and $117,039 at July 31, 1943	$ 711,080	$ 726,472
Miscellaneous investments, advances and deposits—joint merchandising and service organizations ($544,800 at July 31, 1944) and others—at cost	556,424	244,479
	$ 1,267,504	$ 970,951
Fixed Assets:		
Buildings and building improvements on leased land, at cost, less write-down on January 31, 1933 of $1,259,668 to replacement cost at that date, and less depreciation of $3,014,656 at July 31, 1944 and $2,833,671 at July 31, 1943	$ 3,423,716	$ 3,676,372
Store fixtures and equipment, at cost, less depreciation of $406,855 at July 31, 1944, and $343,878 at July 31, 1943	591,268	617,613
	$ 4,014,984	$ 4,293,985
Deferred Charges:		
Supplies	$ 125,272	$ 126,343
Prepaid insurance, taxes, etc.	223,716	192,969
Unamortized expenses incurred in leasing premises to F. W. Woolworth Co.	81,879	85,478
	$ 430,867	$ 404,790
Goodwill—at nominal amount	$ 1	$ 1
	$15,729,244	$15,661,384

STRAUS INC.

rporation)

LANCE SHEET

LIABILITIES

	July 31, 1944	July 31, 1943
CURRENT LIABILITIES:		
Note payable to bank, 2%, due March 30, 1945	$ 100,000	$ ....
Accounts payable—trade	746,421	602,963
Accrued liabilities:		
Salaries and wages	119,112	119,970
Federal taxes on income (See Note 1), less United States Treasury Savings Notes of $1,516,700 at July 31, 1944 and $1,005,400 at July 31, 1943	53,300	162,927
Other taxes	311,081	189,564
Miscellaneous	129,109	84,496
Sundry creditors	105,520	125,084
	$ 1,564,543	$ 1,285,004
LONG-TERM DEBT:		
Notes payable to bank, 2%, due March 30, 1945	$	$ 500,000
Fifteen-year 3% notes, due October 1, 1950 (annual sinking fund requirements have been satisfied to August 15, 1946 at which date, and annually thereafter, payment of $150,000 is required)	1,950,000	1,950,000
	$ 1,950,000	$ 2,450,000
RESERVES:		
For possible additional assessments of taxes	$ 131,754	$ 110,340
For past service retirement benefits under retirement plan (See Note 4)	475,291	....
	$ 607,045	$ 110,340
CAPITAL STOCK and SURPLUS:		
Capital stock:		
Preferred, 4¾% cumulative, par value $100 a share, maximum redemption price $104.50 per share at July 31, 1944 (See Note 2):		
Authorized and issued, 20,000 shares reduced from 25,000 shares by repurchase and amendment of certificate of incorporation	$ 2,000,000	$ 2,000,000
Less repurchased, 1,000 shares	100,000	100,000
Outstanding, 19,000 shares	$ 1,900,000	$ 1,900,000
Common:		
Authorized, 250,000 shares of no par value		
Issued and outstanding, 155,155 shares	1,405,325	1,405,325
Earned surplus (See Note 3)	8,302,331	8,510,715
	$11,607,656	$11,816,040
	$15,729,244	$15,661,384

ABRAHAM & STRAUS INC.

COMPARATIVE EARNED SURPLUS

	Year ended July 31, 1944	Year ended July 31, 1943
Balance, beginning of period	$8,510,715	$8,043,133
Add:		
Net profit (See Note 1)	$ 953,009	$1,086,351
Discount (net) on repurchase of $4\frac{3}{4}\%$ preferred stock (premiums paid in prior years have been deducted from earned surplus and exceed this amount)	———	16,898
	$ 953,009	$1,103,249
	$9,463,724	$9,146,382
Deduct:		
Dividends on:		
$4\frac{3}{4}\%$ preferred stock—quarterly dividends of $1.1875	$ 90,250	$ 92,625
Common stock—$3.50 in each year	543,042	543,042
	$ 633,292	$ 635,667
Provision for past service retirement benefits under retirement plan (See Note 4)	528,101	
	$1,161,393	$ 635,667
Balance, end of period (See Note 3)	$8,302,331	$8,510,715

NOTES TO FINANCIAL STATEMENTS

(1) As explained in the report for the year ended January 31, 1942, the last-in first-out (Lifo) method of determining inventory cost, based upon an index of retail price changes, was adopted in the preparation of the report for that year. The Lifo method was continued for the period of six months, ended July 31, 1942 and for the two years ended July 31, 1944. The effect upon the net profit for the past three and one-half years has been as follows:

		Year ended		Six months ended	Year ended
	Total	July 31, 1944	July 31, 1943	July 31, 1942	January 31, 1942
Reduction of merchandise inventories with an approximately corresponding reduction of net profit per books before provision for federal taxes on income	$613,914	$115,428	$33,893	$100,237	$364,356
Reduction in provision for federal taxes on income	471,550	98,000	27,450	81,100	265,000
Reduction in net profit after federal taxes on income	$142,364	$ 17,428	$ 6,443	$ 19,137	$ 99,356

The use of the Lifo method based upon an index of retail price changes is subject to the approval of the taxing authorities. If the use of this method is not ultimately approved, the taxable income would be increased by approximately the aforementioned reduction of merchandise inventories ($613,914 in the three and one-half years to which it has been applied) and the federal taxes on income payable would be increased to the extent of the aforementioned reduction in taxes ($471,550 in the three and one-half years to which it has been applied).

A comparison of the net profit for the several periods on the Lifo basis and on the basis formerly employed (first-in first-out—Fifo) is as follows:

	Year ended		Six months ended	Year ended
	July 31, 1944	July 31, 1943	July 31, 1942	January 31, 1942
Lifo basis:				
Profit before provision for federal taxes on income	$2,723,009	$2,576,351	$538,896	$1,662,290
Provision for federal taxes on income	1,770,000	1,490,000	250,000	725,000
Net profit	$ 953,009	$1,086,351	$288,896	$ 937,290
Fifo basis, formerly employed:				
Profit before provision for federal taxes on income	$2,838,437	$2,610,244	$639,133	$2,026,646
Provision for federal taxes on income	1,868,000	1,517,450	331,100	990,000
Net profit	$ 970,437	$1,092,794	$308,033	$1,036,646

(2) On or before June 1st of each year, the Corporation is required to expend for the repurchase of preferred stock the greater of (a) \$25,000 or (b) 4% of the net profit after preferred dividends for the preceding fiscal year. The repurchases to July 31, 1944 exceeded by \$291,338 the requirements to and including June 1, 1944.

(3) Of earned surplus, \$3,679,438 at July 31, 1944, and \$3,769,688 at July 31, 1943 were not available for payment of common stock dividends under terms of the indenture covering the fifteen-year notes.

(4) In January, 1944, the Corporation adopted a retirement plan for the benefit of employees involving an annual cost of approximately \$90,000. During the year ended July 31, 1944 there has been charged to profit and loss the amount paid in January, 1944 (\$87,829) and an accrual of one-half of the estimated amount due in January, 1945 (\$47,710). In order to establish the plan, a reserve of \$528,101 has been provided from earned surplus to cover the past service benefits of the initial group under the plan. Of this amount, one-tenth (\$52,810) was paid during the year and has been charged to the reserve. This amount, however, is allowable as a deduction from income subject to federal taxes, and, accordingly, the provision for federal taxes is reduced thereby by approximately \$45,000.

TOUCHE, NIVEN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
EIGHTY MAIDEN LANE
NEW YORK

October 13, 1944

To the Board of Directors of Abraham & Straus, Inc.:

We have examined the balance sheet of Abraham & Straus, Inc. as of July 31, 1944, and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company 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.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of Abraham & Straus, Inc. at July 31, 1944, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Niven & Co.

ABRAHAM & STRAUS INC.

BROOKLYN, NEW YORK

REPORT

FOR THE FISCAL YEAR

ENDED AUGUST 4, 1945

BOARD OF DIRECTORS

Edward C. Blum

Walter Rothschild

Robert E. Blum

Hugh Grant Straus

Fred Lazarus, Jr.

Philip A. Benson

OFFICERS

Edward C. Blum	Chairman of the Board
Walter Rothschild	President
Robert E. Blum	Vice-President-Secretary
Kenneth C. Richmond	Vice-President-Treasurer
Hugh Grant Straus	Vice-President
Sidney L. Solomon	Vice-President
Richard H. Brown	Vice-President
Mrs. Dorothy E. Swenson	Vice-President
Rollin H. Steiger	Assistant Secretary

ABRAHAM & STRAUS INC.

October 16, 1945

To the Stockholders:

On behalf of the Board of Directors there is presented herewith the annual report of the operations of your Company for the fiscal year ended August 4, 1945.

Net sales reached a new high, totalling $40,476,198, an increase of $5,549,005, or 15.89%. During the year the Company adopted the so-called 4-5-4 weekly period calendar so that the fiscal year ended August 4, 1945, included three extra selling days.

Net profit as compared with that of the preceding fiscal year, was as follows:

	Year Ended August 4, 1945	Year Ended July 31, 1944
Net profit before Federal taxes on income	$4,472,674	$2,723,009
Provision for Federal taxes on income	3,110,000	1,770,000
Net profit	$1,362,674	$ 953,009
Earnings per share of common stock	$ 8.20	$ 5.56
Dividends paid per share of common stock	$ 3.50	$ 3.50

While a new record was established for sales, net profit after taxes for the year, although above those for any year since 1930, was considerably lower than the peak net earnings of $1,557,424 for the year ended January 31, 1929.

Current assets of your Company at August 4, 1945 amounted to $10,908,840, and current liabilities to $2,011,655, a ratio of 5.4 to 1. Net working capital at August 4, 1945 was $8,897,185 compared to $8,319,591 at the close of the preceding fiscal year. The Lifo method of evaluating inventories has been continued, as is more fully explained in Note 1 to the financial statements.

During the year $200,000 principal amount of outstanding 3% Notes were redeemed at a premium of 1%. Since the close of the fiscal year, an additional $150,000 principal amount were redeemed without premium, after which there remains outstanding $1,450,000 of such Notes. There are no bank loans outstanding.

Your Company looks to the future with confidence, as is evident from the recently announced building program. Shortly after the first of the year, construction will be started on a new eight story building which will replace a major portion of the present Central Building. The architectural lines, equipment and facilities of the new building will be in harmony with the East Building which was erected in 1929. The construction and fixturing program will involve an expenditure of about $4,000,000 and will increase present selling area by about 21%. In addition, improved facilities for the receipt, marking and movement of merchandise will be provided.

We believe that business will continue at an accelerated tempo. Many items which have been scarce for some time are beginning to find their way back into the market. Our present inventory is being carefully screened in order to eliminate any sub-standard merchandise so that we enter the post war era with clean stocks and the best assortments possible. Our progressive building and merchandising plans should insure the continuation of our business along sound economic lines.

Wartime conditions have presented many personnel problems. We record with appreciation the splendid effort made by our organization to maintain the standards of service which have been established for many years. We look forward to the return of many employees from the armed forces and it is believed that our organization will be strengthened by the return of these qualified and experienced employees.

During the year Mr. Philip A. Benson, President of the Dime Savings Bank of Brooklyn, was elected a member of the Board of Directors. We record with regret the death of Mr. Lawrence Abraham, an officer and director of the Company for many years, who resigned in 1933 for reasons of ill health.

A grateful nation rejoices in the victory which is ours and we pause to pay tribute to the armed forces which have made this possible. We pay particular tribute to the 1087 A&S employees who served their country and revere the memory of the 19 employees who made the supreme sacrifice.

Yours very truly,

WALTER ROTHSCHILD
President

ABRAHAM & STRAUS INC.

COMPARATIVE PROFIT AND LOSS

	Year ended August 4, 1945 (52½ weeks)	Year ended July 31, 1944
Net Sales (including sales of leased departments)	$40,476,198	$34,927,193
Cost of Goods Sold and Expenses, exclusive of items listed below (See Note 1)	35,322,495	31,531,244
	$ 5,153,703	$ 3,395,949
Deduct:		
Depreciation	$ 331,059	$ 326,562
Maintenance and repairs	380,390	278,276
Interest on indebtedness, amortization of debt discount, etc.	57,290	70,337
	$ 768,739	$ 675,175
	$ 4,384,964	$ 2,720,774
Other Income—net:		
Interest and dividends earned on securities, etc.	$ 44,537	$ 35,001
Refund of prior years' real estate taxes	70,140	———
	$ 114,677	$ 35,001
Less losses from property rented to others after deducting depreciation	26,967	32,766
	$ 87,710	$ 2,235
Profit, before federal taxes on income	$ 4,472,674	$ 2,723,009
Provision for Federal Taxes on Income	3,110,000	1,770,000
Net Profit (See Note 1)	$ 1,362,674	$ 953,009

ASSETS

	August 4, 1945	July 31, 1944
CURRENT ASSETS:		
Cash on demand deposit and on hand	$ 1,633,409	$ 1,853,277
United States Government securities, at cost	2,000,000	2,200,156
Customers' accounts receivable:		
Regular retail, less reserves of $57,000 at August 4, 1945 and $50,500 at July 31, 1944	1,562,947	1,311,293
Instalment, less reserves of $85,000 at August 4, 1945 and $78,000 at July 31, 1944	830,604	776,020
Merchandise inventories on hand and in transit (See Note 1)	4,688,442	3,663,625
Sundry debtors	193,438	211,517
	$10,908,840	$10,015,888
OTHER ASSETS:		
Real estate not used in operations—land and buildings, at cost less depreciation of $148,021 at August 4, 1945 and $132,432 at July 31, 1944	$ 695,491	$ 711,080
Miscellaneous investments, advances and deposits—joint merchandising and service organizations ($160,700 at August 4, 1945 and $544,800 at July 31, 1944) and others—at cost	172,732	556,424
Claimed overpayment of federal taxes on income (See Note 1)	374,765	———
	$ 1,242,988	$ 1,267,504
FIXED ASSETS:		
Buildings and building improvements on leased land, at cost, less write-down on January 31, 1933 of $1,259,668 to replacement cost at that date and less depreciation of $3,269,988 at August 4, 1945 and $3,014,656 at July 31, 1944	$ 3,169,379	$ 3,423,716
Store fixtures and equipment, at cost, less depreciation of $440,890 at August 4, 1945 and $406,855 at July 31, 1944	567,868	591,268
Preliminary costs of new construction	42,506	———
	$ 3,779,753	$ 4,014,984
DEFERRED CHARGES:		
Supplies	$ 116,940	$ 125,272
Prepaid insurance, taxes, etc.	218,011	223,716
Unamortized expenses incurred in leasing premises to F. W. Woolworth Co.	78,234	81,879
	$ 413,185	$ 430,867
GOODWILL—at nominal amount	$ 1	$ 1
	$16,344,767	$15,729,244

STRAUS INC.

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LANCE SHEET

LIABILITIES

	August 4, 1945	July 31, 1944
Current Liabilities:		
Notes payable to bank, 2%	$ ——	$ 100,000
Accounts payable—trade	731,558	746,421
Accrued liabilities:		
Salaries and wages	143,344	119,112
Federal taxes on income (See Note 1):		
Current year, less United States Treasury Savings Notes of $2,335,855 at August 4, 1945 and $1,516,700 at July 31, 1944	282,039	53,300
Possible additional assessments for prior years	173,497	131,754
Other taxes	448,888	311,081
Miscellaneous	65,750	129,109
Sundry creditors	166,579	105,520
	$ 2,011,655	$ 1,696,297
Long-Term Debt—fifteen-year 3% notes, due October 1, 1950 (sinking fund requirements $100,000 on August 15, 1948 and $150,000 on August 15, 1949)	$ 1,600,000	$ 1,950,000
Reserve for Past Service Retirement Benefits Under Retirement Plan	$ 396,076	$ 475,291
Capital Stock and Surplus:		
Capital stock:		
Preferred, $4\frac{3}{4}$% cumulative, par value $100 a share, maximum redemption price $104.00 per share at August 4, 1945 (See Note 2):		
Authorized and issued, 20,000 shares reduced from 25,000 shares by repurchase and amendment of certificate of incorporation	$ 2,000,000	$ 2,000,000
Less repurchased, 1,000 shares	100,000	100,000
Outstanding, 19,000 shares	$ 1,900,000	$ 1,900,000
Common:		
Authorized, 250,000 shares of no par value Issued and outstanding, 155,155 shares	1,405,325	1,405,325
Earned surplus (See Note 3)	9,031,711	8,302,331
	$12,337,036	$11,607,656
	$16,344,767	$15,729,244

ABRAHAM & STRAUS INC.

COMPARATIVE EARNED SURPLUS

	Year ended August 4, 1945 (52½ weeks)	July 31, 1944
BALANCE, beginning of period	$8,302,331	$8,510,715
ADD:		
ADD NET PROFIT (See Note 1)	1,362,674	953,009
	$9,665,005	$9,463,724
DEDUCT:		
Dividends on:		
4¾% preferred stock—quarterly dividend of $1.1875	$ 90,250	$ 90,250
Common stock—$3.50 in each year	543,044	543,042
	$ 633,294	$ 633,292
Provision for past service retirement benefits under retirement plan	——	528,101
	$ 633,294	$1,161,393
BALANCE, end of period (See Note 3)	$9,031,711	$8,302,331

NOTES TO FINANCIAL STATEMENTS

(1) As explained in the report for the year ended January 31, 1942, the last-in first-out (Lifo) method of determining inventory cost based upon an index of retail price changes, was adopted in the preparation of the report for that year. The Lifo method was continued for the period of six months ended July 31, 1942 and for the three years and four days ended August 4, 1945. The effect upon the net profit for the past four and one-half years and four days has been as follows:

	Total	Year ended August 4, 1945 (52½ weeks)	Year ended July 31 1944	Two years and six months ended July 31, 1943
Reduction of merchandise inventories with an approximately corresponding reduction of net profit per books before provision for federal taxes on income	$669,443	$ 55,529	$115,428	$498,486
Reduction in provision for federal taxes on income	511,550	40,000	98,000	373,550
Reduction in net profit after federal taxes on income	$157,893	$ 15,529	$ 17,428	$124,936

Field agents of the Bureau of Internal Revenue have examined the income and excess profits tax returns for the two years ended January 31, 1943, and have disallowed the use of the Lifo method. A partial payment of the additional assessments resulting therefrom, in the amount of $374,765 (including interest of $49,765), has been made. The Corporation is of the opinion that the disallowance of the use of the Lifo method is not in accordance with the provisions of the Internal Revenue Code, and accordingly is carrying the amount paid as a claim receivable pending the determination of a test case before the Treasury Department. The increase in inventories, if the use of the Lifo method were ultimately disallowed, would exceed the amount carried as a claim. If the use of this method is not ultimately approved, the taxable income would be increased by the aforementioned reduction of merchandise inventories ($669,443 in the four and one-half years and four days to which it has been applied) and the federal taxes on income payable would be increased in the amount of $186,550 ($511,550 for the four and one-half years and four days to which it has been applied, less the payment made of $325,000).

A comparison of the net profit for the fiscal years ended August 4, 1945 and July 31, 1944 on the Lifo basis and on the basis formerly employed (first-in first-out—Fifo) is as follows:

	Year ended August 4, 1945 (52½ weeks)	Year ended July 31, 1944
Lifo basis:		
Profit before provision for federal taxes on income	$4,472,674	$2,723,009
Provision for federal taxes on income	3,110,000	1,770,000
Net profit	$1,362,674	$ 953,009
Fifo basis, formerly employed:		
Profit before provision for federal taxes on income	$4,528,203	$2,838,437
Provision for federal taxes on income	3,150,000	1,868,000
Net profit	$1,378,203	$ 970,437

(2) On or before June 1st of each year, the Corporation is required to expend for the repurchase of preferred stock the greater of (a) $25,000 or (b) 4% of the net profit after preferred dividends for the preceding fiscal year. The repurchases to August 4, 1945 exceeded by $248,716 the requirements to and including June 1, 1945.

(3) Of earned surplus, $3,589,188 at August 4, 1945 and $3,679,438 at July 31, 1944 were not available for payment of common stock dividends under terms of the indenture covering the fifteen-year notes.

(4) The Board of Directors has authorized the construction of a new building to replace a major portion of the present Central Building, which it is estimated, with fixtures, will cost about $4,000,000.

TOUCHE, NIVEN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

EIGHTY MAIDEN LANE

NEW YORK

October 8, 1945

To the Board of Directors of Abraham & Straus, Inc.:

We have examined the balance sheet of Abraham & Straus, Inc. as of August 4, 1945, and the statements of profit and loss and surplus for the year (52½ weeks) then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company 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.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of Abraham & Straus, Inc. at August 4, 1945, and the results of its operations for the year (52½ weeks), in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, NIVEN & CO.

ABRAHAM & STRAUS INC.

BROOKLYN, NEW YORK

REPORT

FOR THE FISCAL YEAR
ENDED AUGUST 3, 1946

BOARD OF DIRECTORS

Edward C. Blum

Walter Rothschild

Robert E. Blum

Hugh Grant Straus

Fred Lazarus, Jr.

Philip A. Benson

Bernard D. Lang

OFFICERS

Edward C. Blum	Chairman of the Board
Walter Rothschild	President
Robert E. Blum	Vice-President-Secretary
Kenneth C. Richmond	Vice-President-Treasurer
Sidney L. Solomon	Vice-President
Richard H. Brown	Vice-President
Rollin H. Steiger	Assistant Secretary

ABRAHAM & STRAUS INC.

October 23, 1946

To the Stockholders:

On behalf of the Board of Directors, there is presented herewith the annual report of the operations of your Company for the fiscal year ended August 3, 1946.

Net sales for the year reached a new high of $48,615,893, an increase of $8,139,695, or 20.1%. This record was attained under considerable handicap due to our building program which resulted in temporarily reduced selling areas and customer inconvenience.

Net profit as compared with that of the preceding fiscal year, was as follows:

	Fiscal Year Ended August 3, 1946	Fiscal Year Ended August 4, 1945
Profit before Federal taxes on income	$4,199,618	$4,472,674
Provision for Federal taxes on income	2,155,000	3,110,000
Net profit	$2,044,618	$1,362,674
Earnings per share of common stock	$ 12.21	$ 8.20
Dividends paid per share of common stock	$ 4.50	$ 3.50

Current assets of your Company at August 3, 1946 amounted to $12,398,342, and current liabilities to $2,291,256, a ratio of 5.41 to 1. Net working capital at August 3, 1946 was $10,107,086 compared to $8,897,185 at the close of the preceding fiscal year. The Lifo method of evaluating inventories has been continued, as is more fully explained in Note 1 to the financial statements.

The building program announced last year is well under way, embracing the replacement of a portion of the Central Building by an eight-story and two basement building, and the construction of a service tower to provide adequate transportation facilities for merchandise. It is expected that several floors will be available for selling during the 1946 fall season. Upon completion, the store's selling area will be increased by about 18% over the space available prior to the initiation of the building program. To assist in financing the new construction, your company sold 30,000 shares of a new issue of 4¼% preferred stock to Federated Department Stores, Inc. at par ($100 per share) plus accrued dividends. The general terms of this issue parallel those of the outstanding 4¾% preferred stock.

Production of consumer goods has improved, but deliveries have been below expectation, particularly in the appliance and heavy goods industries. It is expected that accelerated deliveries during next year will more nearly meet customer demands. Soft line deliveries are increasing and, in our enlarged building, specialized departments are planned intended to assure continuance of increasing volume attained in recent years. A careful analysis has been made of our inventories and markdowns have been taken directed toward eliminating merchandise which has not measured up to prewar standards. Orders are now being placed on a more selective basis so that our offerings can face the customer challenge for better quality. Our buying organization is alert for new technological developments, particularly by those manufacturers who have converted war industries to new consumer lines.

During the year, all of the outstanding Fifteen-Year 3% Notes due October 1, 1950 in the face amount of $1,600,000 were redeemed. This was the residue of the refunding of an issue of debenture notes sold in 1928 at the time of the construction of the East Building. To provide for future working capital, expanding receivables and inventories, a bank credit call agreement was executed at favorable interest rates, effective September 1, 1946, under which borrowings may be made in amounts not to exceed $5,000,000 at any time to September 1, 1956, by which date all borrowings must be repaid.

During the year, Mr. Bernard D. Lang, a member of the firm of Proskauer, Rose, Goetz & Mendelsohn, counsel to your Company, was elected to the Board of Directors.

We have been privileged to welcome back 243 employees from military service. Their presence has strengthened our organization. Management wishes to record its appreciation for the loyal support evidenced by the employees during the past year.

Yours very truly,

WALTER ROTHSCHILD

President

ABRAHAM & STRAUS INC.

COMPARATIVE PROFIT AND LOSS

	Annual periods ended August 3, 1946	Annual periods ended August 4, 1945
NET SALES (including sales of leased departments)	$48,615,893	$40,476,198
COST OF GOODS SOLD (See Note 1) AND EXPENSES, exclusive of items listed below	43,729,043	35,322,495
	$ 4,886,850	$ 5,153,703
DEDUCT:		
Depreciation and amortization	$ 307,927	$ 331,059
Maintenance and repairs	339,293	380,390
Interest on indebtedness, debt retirement premium, etc.	57,596	57,290
	$ 704,816	$ 768,739
	$ 4,182,034	$ 4,384,964
OTHER INCOME—net:		
Interest on securities, etc.	$ 41,377	$ 44,537
Refund of prior years' real estate taxes	—	70,140
Loss from property rented to others, after deducting depreciation	23,793*	26,967*
	$ 17,584	$ 87,710
PROFIT BEFORE FEDERAL TAXES ON INCOME	$ 4,199,618	$ 4,472,674
PROVISION FOR FEDERAL TAXES ON INCOME	2,155,000	3,110,000
NET PROFIT (See Note 1)	$ 2,044,618	$ 1,362,674

* Deduction

ASSETS	August 3, 1946	August 4, 1945
Current Assets:		
Cash on demand deposit and on hand	$ 922,163	$ 1,633,409
United States Government securities at cost	2,000,000	2,000,000
Customers' accounts receivable:		
Regular retail, less reserves of $97,500 at August 3, 1946 and $57,000 at August 4, 1945	2,534,439	1,562,947
Instalment, less reserves of $98,000 at August 3, 1946 and $85,000 at August 4, 1945	1,028,934	830,604
Merchandise inventories on hand and in transit (See Note 1)	5,666,666	4,688,442
Sundry debtors	246,140	193,438
	$12,398,342	$10,908,840
Other Assets:		
Real estate not used in operations—land and buildings, at cost less depreciation of $163,364 at August 3, 1946 and $148,021 at August 4, 1945	$ 680,147	$ 695,491
Claimed overpayment of federal taxes on income (See Note 1)	542,463	374,765
Investments in joint merchandising and service organizations and miscellaneous other assets	109,255	172,732
	$ 1,331,865	$ 1,242,988
Fixed Assets:		
Buildings and building improvements on leased land at cost less write-down on January 31, 1933 of $1,259,668 to replacement cost at that date and less depreciation of $2,826,012 at August 3, 1946 and $3,269,988 at August 4, 1945	$ 2,943,076	$ 3,169,379
Store fixtures and equipment at cost less depreciation of $464,901 at August 3, 1946 and $440,890 at August 4, 1945	619,535	567,868
Construction in progress	1,482,609	42,506
	$ 5,045,220	$ 3,779,753
Deferred Charges:		
Supplies	$ 129,026	$ 116,940
Prepaid insurance, taxes, etc.	188,419	218,011
Unamortized expenses incurred in leasing premises to F. W. Woolworth Co.	74,646	78,234
	$ 392,091	$ 413,185
Goodwill—at nominal amount	$ 1	$ 1
	$19,167,519	$16,344,767

STRAUS INC.

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LANCE SHEET

LIABILITIES	August 3, 1946	August 4, 1945
Current Liabilities:		
Accounts payable—trade	$ 909,756	$ 731,558
Accrued liabilities:		
Salaries and wages	187,456	143,344
Federal taxes on income (See Note 1):		
Current year, less U. S. Treasury savings notes of $2,206,000 at August 3, 1946 and $2,335,855 at August 4, 1945	——	282,039
Possible assessment for prior years	257,690	173,497
Other taxes	293,812	384,170
Miscellaneous	43,401	65,750
Sundry creditors	599,141	231,297
	$ 2,291,256	$ 2,011,655
Long-Term Debt—fifteen-year 3% notes, redeemed July 15, 1946	$ ——	$ 1,600,000
Reserve for Past Service Retirement Benefits Under Retirement Plan	$ 343,266	$ 396,076
Capital Stock and Surplus:		
Capital stock:		
Preferred, cumulative, par value $100 (See Note 2):		
4¾%, authorized and issued, 19,000 shares at August 3, 1946 and 20,000 shares at August 4, 1945	$ 1,900,000	$ 2,000,000
Less repurchased 1,000 shares	——	100,000
Outstanding, 19,000 shares	$ 1,900,000	$ 1,900,000
4¼%, authorized, issued and outstanding, 30,000 shares	3,000,000	——
Common:		
Authorized, 250,000 shares of no par value issued and outstanding, 155,155 shares	1,405,325	1,405,325
Earned surplus	10,227,672	9,031,711
	$16,532,997	$12,337,036
	$19,167,519	$16,344,767

ABRAHAM & STRAUS INC.

COMPARATIVE EARNED SURPLUS

	Annual periods ended August 3, 1946	Annual periods ended August 4, 1945
BALANCE, beginning of period	$ 9,031,711	$ 8,302,331
ADD NET PROFIT (See Note 1)	2,044,618	1,362,674
	$11,076,329	$ 9,665,005
DEDUCT:		
Dividends on:		
4¾% preferred stock—quarterly dividends of $1.1875 each	$ 90,250	$ 90,250
4¼% preferred stock—two quarterly dividends of $1.0625 each	60,208	—
Common stock—$4.50 and $3.50 per share, respectively	698,199	543,044
	$ 848,657	$ 633,294
BALANCE, end of period	$10,227,672	$ 9,031,711

ABRAHAM & STRAUS INC.

NOTES TO FINANCIAL STATEMENTS

(1) As explained in the report for the year ended January 31, 1942, the last-in first-out (Lifo) method of determining inventory cost based upon an index of retail price changes, was adopted in the preparation of the report for that year. This method has been continued for subsequent periods. The effect upon the net profit has been as follows:

	Total	Annual periods ended August 3, 1946	Annual periods ended August 4, 1945	Three and one-half years ended July 31, 1944
Reduction of merchandise inventories with an approximately corresponding reduction of profit per books before provision for federal taxes on income	$919,814	$254,309	$ 51,591	$613,914
Reduction in provision for federal taxes on income	621,697	110,147	40,000	471,550
Reduction in net profit after federal taxes on income	$298,117	$144,162	$ 11,591	$142,364

Field agents of the Bureau of Internal Revenue have examined the income and excess profits tax returns for the three years ended January 31, 1944, and have disallowed the use of the Lifo method. Partial payments of the additional assessments resulting therefrom, in the amount of $542,463 (including interest of $62,463), have been made. The Company is of the opinion that the disallowance of the use of the Lifo method is not in accordance with the provisions of the Internal Revenue Code, and accordingly is carrying the amount paid as a claim receivable pending the determination of a test case. The increase in inventories, if the use of the Lifo method were ultimately disallowed, would exceed the amount carried as a claim. If the use of this method is not ultimately approved, the taxable income would be increased by the aforementioned total reduction of merchandise inventories of $919,814 and the federal taxes on income payable would be increased in the amount of $141,697 ($621,697, less the payments made of $480,000).

(2) The per share redemption price is $104 for the 4¾% issue and $100 for the 4¼% issue. On or before June 1st of each year, the Company is required to expend for the repurchase of 4¾% preferred stock the greater of (a) $25,000 or (b) 4% of the net profit after preferred dividends for the preceding fiscal year. The repurchases to August 3, 1946 exceeded by $197,792 the requirements to June 1, 1946.

(3) A new building is under construction to replace a major portion of the present Central Building, which it is estimated, with fixtures, will cost about $3,500,000 to complete.

TOUCHE, NIVEN & CO.
CERTIFIED PUBLIC ACCOUNTANTS

EIGHTY MAIDEN LANE
NEW YORK

October 4, 1946

To the Board of Directors and Stockholders
of Abraham & Straus, Inc.:

We have examined the balance sheet of Abraham & Straus, Inc. as of August 3, 1946, and the statements of profit and loss and surplus for the fiscal year (52 weeks) then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company 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.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of Abraham & Straus, Inc. at August 3, 1946, and the results of its operations for the fiscal year (52 weeks) then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Niven & Co.

TOUCHE, NIVEN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

[illegible]

[illegible]

[illegible]

To the Board of Directors and Stockholders

[illegible] Inc.

We have examined the balance sheet of [illegible] 1955, and the statements of profit and loss and surplus [illegible] ended, have reviewed the system of internal [illegible] accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company 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.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of [illegible] Inc. at August 31, 1955, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[illegible]

ABRAHAM & STRAUS INC.

BROOKLYN, NEW YORK

REPORT

FOR THE FIFTY-TWO WEEK PERIOD
AND THE TWENTY-SIX WEEK PERIOD
ENDED FEBRUARY 1, 1947

BOARD OF DIRECTORS

Walter Rothschild | Hugh Grant Straus
Robert E. Blum | Fred Lazarus, Jr.
Bernard D. Lang

OFFICERS

Walter Rothschild	President
Robert E. Blum	Vice-President, Secretary
Kenneth C. Richmond	Vice-President, Treasurer
Sidney L. Solomon	Vice-President
Richard H. Brown	Vice-President
Rollin H. Steiger	Assistant Secretary

ABRAHAM & STRAUS INC.

May 15, 1947

To our Stockholders:

On behalf of the Board of Directors, there is presented herewith the report of your Company for the twelve months' period ended February 1, 1947, and also for the six months' period ended February 1, 1947. The Board of Directors recently authorized a change in the fiscal year so that it will end on the Saturday nearest January 31st. Since the last annual report covered the twelve months' period ended August 3, 1946, this report covers the fifty-two week period and the twenty-six week period ended February 1, 1947.

	52 week period ended	
	February 1, 1947	February 2, 1946
Net Sales	$55,381,548	$42,282,960
Profit before taxes on income	$ 3,929,565	$ 3,745,496
Provision for Federal taxes on income	1,520,000	2,605,000
Net Profit	$ 2,409,565	$ 1,140,496
Earnings per share on Common Stock	$ 14.15	$ 6.77
Dividends paid per share on Common Stock	$ 5.00	$ 3.50

	26 week period ended	
	February 1, 1947	February 2, 1946
Net Sales	$30,370,184	$23,604,530
Profit before taxes on income	$ 1,472,641	$ 1,742,696
Provision for Federal taxes on income	590,000	1,225,000
Net Profit	$ 882,641	$ 517,696
Earnings per share on Common Stock	$ 4.99	$ 3.05
Dividends paid per share on Common Stock	$ 2.25	$ 1.75

Sales for the twelve months' period increased 30.98% and for the six months' period 28.66% over the corresponding figures of the preceding year.

The new Central Building is almost completed. Your Company had the use of several floors for the Christmas season. The friendly interest and cooperation of our customers during the construction period is equalled only by their enthusiasm for the new and more spacious departments recently opened. The new selling areas in a greatly improved physical plant should broaden opportunities to serve the public, assure continued growth of our business and improve our position of leadership in the community.

Our merchandising activities have been adjusted to changng conditions of a peace-time economy. We are taking mark-downs freely where necessary in order to maintain clean stocks and balanced inventories. Furthermore, as a result of quicker deliveries, we have been able to reduce sharply our outstanding commitments and at the same time improve assortments and the quality of merchandise. Consistent with our policy of many years, our buying organization is in constant contact with our resources in order to bring to our customers the best merchandise available at the lowest possible prices.

Your Company has sold its stock in Metropolitan Television, Inc., which had engaged in experimental work in television and in frequency modulation. Bloomingdale Bros., Inc., which owned the balance of the stock of Metropolitan Television, Inc., at the same time sold its interest in that company. Careful study of your Company's experience in this field led to the conclusion that at least during the development period, ownership should be in the hands of those concerned exclusively with the future of television and frequency modulation.

As you know, Federated Department Stores, Inc., owns all of the Preferred Stock and a large majority of the Common Stock of your Company. It similarly owns directly or indirectly all or a majority of the shares of Wm. Filene's Sons Company of Boston, Mass.; The F. and R. Lazarus and Company of Columbus, Ohio; Bloomingdale Bros., Inc., of New York City; The John Shillito Company of Cincinnati, Ohio, and Foley Brothers Dry Goods Company of Houston, Texas.

We record with a deep sense of loss the death of Edward C. Blum who was Chairman of our Board of Directors. Mr. Blum had been associated with the management of your Company for more than fifty years, having been one of the early partners, and after incorporation of the Company, having served as Vice-President, President and Chairman of the Board. His administrative capacity and his keen understanding contributed very materially to the standing which your Company enjoys in its community. We also record with sorrow the death of Philip A. Benson who had been a valued director of the Company for several years.

I take this occasion to express our thanks to the members of our organization for their cooperation and loyal support.

Yours very truly,

Walter Rothschild

President

ABRAHAM & STRAUS INC.

COMPARATIVE PROFIT AND LOSS

	52 weeks ended		26 weeks ended	
	February 1, 1947	February 2, 1946	February 1, 1947	February 2, 1946
Net Retail Sales (including sales of leased departments)	$55,381,548	$42,282,960	$30,370,184	$23,604,530
Cost of Goods Sold (See Note 1) and expenses, exclusive of items listed below	50,527,939	37,711,950	28,416,693	21,413,404
	$ 4,853,609	$ 4,571,010	$ 1,953,491	$ 2,191,126
Deduct:				
Depreciation and amortization	$ 291,636	$ 326,789	$ 146,286	$ 162,576
Maintenance and repairs	668,653	463,966	396,988	272,021
Interest on indebtedness, debt retirement premium, etc.	46,005	51,655	10,863	22,455
	$ 1,006,294	$ 842,410	$ 554,137	$ 457,052
	$ 3,847,315	$ 3,728,600	$ 1,399,354	$ 1,734,074
Other Income—net	82,250	16,896	73,287	8,622
Profit Before Federal Taxes on Income	$ 3,929,565	$ 3,745,496	$ 1,472,641	$ 1,742,696
Provision for Federal Taxes on Income	1,520,000	2,605,000	590,000	1,225,000
Net Profit (See Note 1)	$ 2,409,565	$ 1,140,496	$ 882,641	$ 517,696

ASSETS	February 1, 1947	February 2, 1946
Current Assets:		
Cash on demand deposit and on hand	$ 1,753,972	$ 2,270,193
United States Government securities, at cost	260,000	3,102,000
Customers' accounts receivable:		
Regular retail, less reserves of $130,500 at February 1, 1947 and $73,000 at February 2, 1946	3,262,978	1,864,015
Instalment, less reserves of $168,500 at February 1, 1947 and $120,000 at February 2, 1946	1,802,500	1,229,192
Merchandise inventories on hand and in transit (See Note 1)	5,932,042	4,517,093
Sundry debtors	301,936	239,258
	$13,313,428	$13,221,751
Other Assets:		
Real estate not used in operations—land and buildings, at cost less depreciation of $170,961 at February 1, 1947 and $155,618 at February 2, 1946	$ 672,550	$ 687,893
Claimed overpayment of federal taxes on income (See Note 1)	542,463	542,463
Investments in joint merchandising and service organizations and miscellaneous other assets	81,558	140,773
	$ 1,296,571	$ 1,371,129
Fixed Assets:		
Buildings and building improvements on leased land, at cost less write-down on January 31, 1933 of $1,217,441 to replacement cost at that date and less depreciation of $2,930,285 at February 1, 1947 and $3,395,093 at February 2, 1946 (See Note 3)	$ 6,063,911	$ 3,442,867
Store fixtures and equipment, at cost less depreciation of $506,913 at February 1, 1947 and $478,360 at February 2, 1946	875,272	537,605
	$ 6,939,183	$ 3,980,472
Deferred Charges:		
Prepaid insurance, taxes, etc.	$ 277,099	$ 159,306
Supplies	122,505	71,805
Unamortized expenses of leasing real estate not used in operations	72,870	76,457
	$ 472,474	$ 307,568
Goodwill—at nominal amount	$ 1	$ 1
	$22,021,657	$18,880,921

STRAUS INC.

orporation)

ALANCE SHEET

LIABILITIES	February 1, 1947	February 2, 1946
CURRENT LIABILITIES:		
Accounts payable—trade	$ 1,463,819	$ 1,733,777
Accrued liabilities:		
Salaries and wages	488,727	353,565
Federal taxes on income (See Note 1), less U. S. Treasury savings notes of $1,520,000 at February 1, 1947 and $1,312,730 at February 2, 1946	—	1,327,270
Other taxes	291,234	242,832
Miscellaneous	148,066	120,301
Sundry creditors	597,596	575,198
	$ 2,989,442	$ 4,352,943
LONG-TERM DEBT:		
Fifteen-year 3% notes, redeemed July 15, 1946	$ —	$ 1,450,000
Notes payable to bank, due September 1, 1956	1,500,000	—
	$ 1,500,000	$ 1,450,000
RESERVES:		
For past service retirement benefits under retirement plan	$ 316,861	$ 369,671
For possible assessment of taxes for prior years	257,689	170,222
	$ 574,550	$ 539,893
CAPITAL STOCK AND SURPLUS:		
Capital stock:		
Preferred, cumulative, par value $100 (See Note 2)—authorized, issued and outstanding:		
4¾%, 19,000 shares	$ 1,900,000	$ 1,900,000
4¼%, 30,000 shares	3,000,000	—
Common:		
Authorized, 250,000 shares of no par value. Issued and outstanding, 155,155 shares	1,405,325	1,405,325
Earned surplus	10,652,340	9,232,760
	$16,957,665	$12,538,085
	$22,021,657	$18,880,921

ABRAHAM & STRAUS INC.

COMPARATIVE EARNED SURPLUS

	52 weeks ended		26 weeks ended	
	February 1, 1947	February 2, 1946	February 1, 1947	February 2, 1946
BALANCE, beginning of period	$ 9,232,760	$ 8,725,557	$10,227,672	$ 9,031,711
ADD NET PROFIT (See Note 1)	2,409,565	1,140,496	882,641	517,696
	$11,642,325	$ 9,866,053	$11,110,313	$ 9,549,407
Deduct dividends on:				
$4\frac{3}{4}\%$ preferred stock—quarterly dividends of $1.1875 each	$ 90,250	$ 90,250	$ 45,125	$ 45,125
$4\frac{1}{4}\%$ preferred stock—quarterly dividends of $1.0625 each	123,959	—	63,750	—
Common stock—$5.00, $3.50, $2.25 and $1.75 per share, respectively	775,776	543,043	349,098	271,522
	$ 989,985	$ 633,293	$ 457,973	$ 316,647
BALANCE, end of period	$10,652,340	$ 9,232,760	$10,652,340	$ 9,232,760

NOTES TO FINANCIAL STATEMENTS

(1) As explained in the report for the year ended January 31, 1942, the last-in first-out (Lifo) method of determining inventory cost based upon an index of retail price changes, was adopted in the preparation of the report for that year. This method has been continued for subsequent periods. The effect upon the net profit has been as follows:

	Total, 6 years ended February 1, 1947	52 weeks ended February 1, 1947	52 weeks ended February 2, 1946	26 weeks ended February 1, 1947	26 weeks ended February 2, 1946
Reduction of merchandise inventories with an approximately corresponding reduction of profit per books before provision for federal taxes on income	$1,307,987	$594,801	$35,428	$388,173	$47,681
Reduction in provision for federal taxes on income	769,203	226,024	22,806	147,506	31,628
Reduction in net profit after federal taxes on income	$ 538,784	$368,777	$12,622	$240,667	$16,053

To date, field agents of the Bureau of Internal Revenue have examined the income and excess profits tax returns for the three years ended January 31, 1944, and have disallowed the use of the Lifo method. The Company is of the opinion that the disallowance of the use of the Lifo method is not in accordance with the provisions of the Internal Revenue Code. On January 14, 1947, in The Tax Court of the United States, in a test case brought by another taxpayer, it was decided that department stores may use the Lifo method. The Treasury Department, however, has not yet acquiesced in the decision and the time for its appeal has not expired. Prior to the above-mentioned decision, the Company made payments of tax of $480,000 and interest of $62,463, a total of $542,463, pending final settlement of this controversy, which total sum, with interest thereon, will be refunded if the Company is successful in its contention. The amounts paid are carried as an asset in the accompanying balance sheet because the increase in inventories, if the use of the Lifo method were ultimately disallowed, would be greater than such amounts. If the use of the Lifo method is not ultimately approved, the taxable income would be increased by approximately the aforementioned total reduction of merchandise inventories of $1,307,987 and the federal taxes on income payable would be increased in the amount of $289,203 ($769,203 less the payments made of $480,000).

(2) The per share redemption price is $104 for the 4¾% issue and $100 for the 4¼% issue. On or before June 1st of each year, the Company is required to expend for the repurchase of 4¾% preferred stock the greater of (a) $25,000 or (b) 4% of the net profit after preferred dividends on the 4¾% preferred stock for the preceding fiscal year. The repurchases to February 1, 1947 exceed by $119,346 the requirements to June 1, 1947.

(3) The new Central Building, which was partially in use on February 1, 1947, will cost, with fixtures, approximately $1,500,000 to complete.

(4) During the 26 weeks ended February 1, 1947, the Company changed the end of its fiscal year from the Saturday nearest July 31st to the Saturday nearest January 31st.

TOUCHE, NIVEN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

233 BROADWAY

NEW YORK 7, N. Y.

May 1, 1947

To the Board of Directors and Stockholders

of Abraham & Straus, Inc.:

We have examined the balance sheet of Abraham & Straus, Inc. as of February 1, 1947, and the statements of profit and loss and surplus for the 52 weeks and 26 weeks then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company 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.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of Abraham & Straus, Inc. at February 1, 1947, and the results of its operations for the 52 weeks and 26 weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Touche, Niven & Co.

TOUCHE, NIVEN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

[illegible]

NEW YORK [illegible]

[illegible]

To the Board of Directors and Stockholders

of Abraham & Straus, Inc.:

We have examined the balance sheet of Abraham & Straus, Inc. as of February [illegible], and the statements of profit and loss and surplus for the [illegible] weeks and [illegible] weeks then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company 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 to the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and statements of profit and loss and surplus present fairly the position of Abraham & Straus, Inc. at February [illegible] and the results of its operations for the [illegible] weeks and [illegible] weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, NIVEN & CO.

ABRAHAM & STRAUS INC.

BROOKLYN, NEW YORK

REPORT

FOR THE FIFTY-TWO WEEKS

ENDED JANUARY 31, 1948

BOARD OF DIRECTORS

Robert E. Blum
Bernard D. Lang
Fred Lazarus, Jr.
Kenneth C. Richmond
Walter Rothschild
Sidney L. Solomon
Hugh Grant Straus

OFFICERS

Walter Rothschild	President
Sidney L. Solomon	Vice-President, General Manager
Robert E. Blum	Vice-President, Secretary
Kenneth C. Richmond	Vice-President, Treasurer
Milton Berman	Vice-President
Richard H. Brown	Vice-President
Alfred H. Daniels	Vice-President
James H. Kahlert	Vice-President
Nelson Miller	Vice-President
William Tobey	Vice-President
Douglas Willington	Vice-President
Rollin H. Steiger	Assistant Secretary

ABRAHAM & STRAUS INC.

May 8, 1948

To Our Stockholders:

On behalf of the Board of Directors, there is presented herewith the report of your Company for the fifty-two weeks ended January 31, 1948.

	52 weeks ended	
	January 31, 1948	February 1, 1947
Net Sales	$63,741,949	$55,381,548
Profit before taxes on income	$ 3,305,594	$ 3,929,565
Provision for federal taxes on income	1,315,000	1,520,000
Net Profit	$ 1,990,594	$ 2,409,565
Earnings per share on Common Stock	$ 11.43	$ 14.15
Dividends paid per share on Common Stock	$ 4.50	$ 5.00

Net sales increased 15.10%. The completion of the building program with a resulting increase in selling areas and the opening of several new departments, as well as general economic conditions, have all contributed to the record sales of $63,741,949.

During the year, negotiations on advantageous terms were consummated with the fee owner for the consolidation and extension of the major leases covering the main store properties and adjacent warehouse. The fixed term of the lease now runs to 1977 with two optional renewal periods to 2027. The lease provides rental reductions on a graduated basis with the greater reductions becoming effective during the latter part of the fixed term and very substantial reductions during the two option periods.

After thorough study of possible future financial requirements, your Company sold its instalment accounts receivable to the National City Bank of New York. This sale was consummated on favorable terms and the proceeds were used to pay off long-term borrowings made under a stand-by credit agreement with the same bank. The stand-by credit agreement has been continued in effect for possible future use.

The officers of your Company recognize and appreciate the full degree of cooperation and loyalty evidenced by the organization during the year just closed.

Yours very truly,

Walter Rothschild
President

ABRAHAM

COMPARATIV

ASSETS	January 31, 1948	February 1, 1947
CURRENT ASSETS:		
Cash	$ 1,392,165	$ 1,753,972
United States Government securities	—	260,000
Accounts receivable—retail customers:		
Thirty-day charge accounts, less reserves of $175,000 and $130,500	4,460,215	3,262,978
Revolving budget accounts—individual credit limits payable over specified number of months (not over one year), less reserve of $31,000	588,808	—
Other instalment accounts (See Note 1)	389,545	1,802,500
Accounts receivable—sundry	364,681	301,936
Merchandise inventories (See Note 2)	4,620,667	5,932,042
Refundable federal taxes on income (See Note 2)	758,463	542,463
Prepaid expenses—supplies, insurance, taxes, etc.	363,690	399,604
TOTAL CURRENT ASSETS	$12,938,234	$14,255,495
OTHER ASSETS:		
Real estate not used in operations—at cost less depreciation	$ 657,207	$ 672,550
Miscellaneous	123,015	81,558
	$ 780,222	$ 754,108
PROPERTY AND EQUIPMENT:		
Buildings on leased land, improvements to leased properties, and leasehold—at cost less write-down of $1,217,441 on January 31, 1933 to replacement cost at that date and less depreciation of $3,193,710 and $2,930,285	$ 7,254,512	$ 6,063,911
Store fixtures and equipment—at cost less depreciation of $588,228 and $506,913	1,908,165	875,272
	$ 9,162,677	$ 6,939,183
DEFERRED CHARGES	$ 69,282	$ 72,870
GOODWILL—at nominal amount	$ 1	$ 1
	$22,950,416	$22,021,657

LIABILITIES	January 31, 1948	February 1, 1947
CURRENT LIABILITIES:		
Accounts payable—trade	$ 1,939,129	$ 1,810,078
Accounts payable—sundry	347,349	399,321
Salaries and wages	446,028	488,727
Federal taxes on income, less tax notes of $1,520,000 at February 1, 1947	1,315,000	—
Miscellaneous accrued liabilities	262,079	291,316
TOTAL CURRENT LIABILITIES	$ 4,309,585	$ 2,989,442
NOTES PAYABLE TO BANK, due after one year	$ —	$ 1,500,000
RESERVES:		
For possible assessment of taxes for prior years	$ 317,470	$ 257,689
For past service benefits under retirement plan	264,051	316,861
	$ 581,521	$ 574,550
CAPITAL STOCK AND SURPLUS:		
Preferred stock, cumulative, par value $100 (See Note 3)—authorized, issued and outstanding:		
4¾%, redeemable at $104, 19,000 shares	$ 1,900,000	$ 1,900,000
4¼%, redeemable at $100, 30,000 shares	3,000,000	3,000,000
Common stock, no par value:		
Authorized, 250,000 shares		
Issued and outstanding, 155,155 shares	1,405,325	1,405,325
Earned surplus	11,753,985	10,652,340
	$18,059,310	$16,957,665
	$22,950,416	$22,021,657

ABRAHAM & STRAUS INC.

COMPARATIVE PROFIT AND LOSS

	Fifty-two weeks ended January 31, 1948	Fifty-two weeks ended February 1, 1947
Net retail sales (including sales of leased departments)	$63,741,949	$55,381,548
Deduct:		
Cost of goods sold and expenses, exclusive of items listed below	$58,095,433	$49,877,987
Maintenance and repairs	1,240,467	668,653
Depreciation and amortization	393,955	291,636
Rentals	684,518	649,952
Interest and debt expense	37,398	46,005
	$60,451,771	$51,534,233
	$ 3,290,178	$ 3,847,315
Other income—net	15,416	82,250
Profit before provision for federal taxes on income	$ 3,305,594	$ 3,929,565
Provision for federal taxes on income	1,315,000	1,520,000
Net profit	$ 1,990,594	$2,409,565

COMPARATIVE EARNED SURPLUS

	Fifty-two weeks ended January 31, 1948	Fifty-two weeks ended February 1, 1947
Balance, beginning of period	$10,652,340	$ 9,232,760
Add:		
Net profit for period	1,990,594	2,409,565
Adjustment applicable to prior years—recomputation of LIFO inventories (See Note 2)	27,000	—
	$12,669,934	$11,642,325
Deduct dividends on:		
4¾% preferred stock—quarterly dividends of $1.1875 each	$ 90,250	$ 90,250
4¼% preferred stock—quarterly dividends of $1.0625 each	127,500	123,959
Common stock—$4.50 and $5.00 per share, respectively	698,199	775,776
	$ 915,949	$ 989,985
Balance, end of period	$11,753,985	$10,652,340

ABRAHAM & STRAUS INC.

NOTES TO FINANCIAL STATEMENTS

1. During the year ended January 31, 1948, a plan of selling instalment accounts (other than revolving credit accounts) to a bank was instituted. The balances due are as follows:

	January 31, 1948	February 1, 1947
Balance sold	$2,230,567	$ —
Equity therein	$ 223,057	$ —
Balances not sold	415,488	1,971,000
Total	$ 638,545	$1,971,000
Less reserves	249,000	168,500
Net	$ 389,545	$1,802,500

2. During the year ended January 31, 1942, the Company adopted the last-in first-out (LIFO) inventory basis using an index of retail prices. At that time the Bureau of Internal Revenue took the position that the use of the LIFO basis was not available to taxpayers whose inventories were determined by the retail inventory method. The Company, nevertheless, continued to determine profits and file tax returns on the LIFO basis, and was of the opinion that the disallowance of that basis by the Bureau of Internal Revenue was contrary to the provisions of the Internal Revenue Code. On January 14, 1947, the Tax Court of the United States decided that retail stores may use the LIFO basis. In March, 1948, the Treasury Department acquiesced in this decision by issuing regulations for use by retailers of such basis. Those regulations, however, provided for the use of a different index of retail prices and required changes to be made in the method of computation. The inventories at January 31, 1948 were computed in accordance with those regulations and recomputations were made, as required, of inventories and federal and state taxes for prior years.

As heretofore, the retail method of inventories was used, in the main, for both LIFO and FIFO purposes. Of the total inventory of $4,620,667 at January 31, 1948, $4,576,699 is stated on the LIFO basis, which is lower than market, and $43,968 is stated on the FIFO basis at cost or market whichever lower.

The recomputations made in accordance with the new regulations resulted in adjustments of figures previously published for the seven years ended February 1, 1947 as follows: (1) a decrease of $199,000 in profits before federal and state taxes; and (2) a decrease of $226,000 in federal and state taxes. The resultant increase of $27,000 in net profit was added to earned surplus.

The resultant increase, in turn, is divisible into a decrease of $1,000 for the six years ended February 2, 1946 and an increase of $28,000 for the year ended February 1, 1947. The figures in the accompanying statement of profit and loss for the latter year are as previously published and they have not been modified to give effect to this increase.

Prior to the decision by the Treasury Department permitting the use by retailers of the LIFO basis of valuing inventories, the Company had made some payments of tax and interest on the FIFO basis pending final settlement of the controversy and these payments, as now adjusted, are shown in the balance sheet as "Refundable federal taxes on income".

3. On or before June 1st of each year, the Company is required to expend for the repurchase of its 4¾% preferred stock the greater of (a) $25,000 or (b) 4% of the net profit after dividends on the 4¾% preferred stock for the preceding fiscal year. The repurchases to January 31, 1948 exceed by $31,625 the requirements to June 1, 1948.

TOUCHE, NIVEN, BAILEY & SMART

CERTIFIED PUBLIC ACCOUNTANTS

233 BROADWAY

NEW YORK 7, N. Y.

April 16, 1948

Board of Directors and Stockholders,
Abraham & Straus, Inc.,
Brooklyn, New York.

We have examined the balance sheet of Abraham & Straus, Inc. as of January 31, 1948, and the statements of profit and loss and surplus for the 52 weeks then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of Abraham & Straus, Inc. at January 31, 1948, and the results of its operations for the 52 weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, NIVEN, BAILEY & SMART

Certified Public Accountants

ABRAHAM & STRAUS INC.

BROOKLYN, NEW YORK

REPORT

FOR THE FIFTY-TWO WEEKS
ENDED JANUARY 29, 1949

BOARD OF DIRECTORS

Robert E. Blum

Bernard D. Lang

Fred Lazarus, Jr.

Kenneth C. Richmond

Walter Rothschild

Sidney L. Solomon

Hugh Grant Straus

OFFICERS

Walter Rothschild	President
Sidney L. Solomon	Vice-President, General Manager
Robert E. Blum	Vice-President, Secretary
Kenneth C. Richmond	Vice-President, Treasurer
Milton S. Berman	Vice-President
Richard H. Brown	Vice-President
Alfred H. Daniels	Vice-President
James H. Kahlert	Vice-President
William Tobey	Vice-President
Douglas W. Willington	Vice-President
Rollin H. Steiger	Assistant Secretary

ABRAHAM & STRAUS INC.

May 9, 1949

To our Stockholders:

On behalf of the Board of Directors, there is presented herewith the report of your Company for the fifty-two weeks ended January 29, 1949. As will be observed in the table set forth below, sales increased 6.5% to a record high of $67,879,336:

	52 Weeks Ended	
	January 29, 1949	January 31, 1948
Net Sales	$67,879,336	$63,741,949
Income before federal taxes on income	$ 4,725,989	$ 3,305,594
Federal taxes on income	1,815,000	1,315,000
Net income	$ 2,910,989	$ 1,990,594
Earnings per share on common stock	$ 17.36	$ 11.43
Dividends paid per share on common stock	$ 5.00	$ 4.50

The past year marked the completion of the current phase of our post-war building program which has made Abraham & Straus one of the country's most modern and beautiful stores. Efficient operation has been a paramount thought in the minds of those responsible for planning these improvements; and, therefore, the program has not only provided for new and increased areas for selling but also for modernizing many areas for selling-supporting functions and for improving facilities for our employees. Among those sections completed during the fiscal year was an entirely new fashion floor. This includes the Rose Room, featuring fine apparel and accessories, and the Thrift Fashion Floor displaying medium and lower-priced merchandise. The other apparel departments were modernized in keeping with the character of newly fixtured and decorated departments in other parts of the store. New facilities to take care of the growing credit business were installed. Physical layouts for receiving, marking and care of stock were perfected. The Employees' Cafeteria was completely renovated to increase its size and provide more efficient service, and many other improvements mere made.

During the year, a lease was negotiated with the Metropolitan Life Insurance Company for a Service Building occupying a full city block in the vicinity of the store. Favorable rental terms were agreed upon, with substantial reductions becoming effective for two eleven year renewal periods. The new Service Building is constructed of re-enforced concrete, has a railroad siding within the building and truck loading bays on four sides. It is a ten story building containing 440,000 sq. ft. of space and takes the place of four small warehouses previously leased containing a total of 285,000 sq. ft. As the entire building is not needed for our present operation, a portion of it is being rented to others on short term leases. The occupation of this building will not only improve our service and permit an efficient operation, but will be accompanied by substantial savings.

To keep pace with the growth of this business, with sales volume more than three times that of fifteen years ago, the top management of the company was broadened and strengthened last year. This new organization is now becoming seasoned and is well equipped to meet the problems created by the change from an economy of scarcity to one in which sales volume has leveled off with the average sale lower and the number of transactions increasing.

Inventories are in excellent condition both as to size and content; outstanding commitments are comparatively low, and we are in a good position to take advantage of the competitive conditions of the buyers' market which has now returned.

The co-operation and loyalty of the entire organization this year, as in the past, are recognized and appreciated by the officers.

Yours very truly,

Walter Rothschild,
President

ABRAHAM

BALA

ASSETS	January 29, 1949	January 31, 1948
Current Assets:		
Cash	$ 2,467,603	$ 1,392,165
Due from customers:		
Thirty-day charge accounts, less provision for possible future losses of $174,000 and $175,000 at the respective dates	4,354,149	4,460,215
Revolving budget accounts, less provision for possible future losses of $73,641 and $31,000 at the respective dates	1,386,026	588,808
Other instalment accounts (Note 1)	362,491	389,545
Other accounts receivable	164,862	364,681
Merchandise inventories (Note 2)	4,491,035	4,620,667
Refundable federal taxes on income (Note 2)	773,463	758,463
Supplies and prepaid expenses	512,277	363,690
Total Current Assets	$14,511,906	$12,938,234
Other Assets:		
Real estate not used in operations—at cost less depreciation	$ 643,247	$ 657,207
Miscellaneous	240,374	192,297
	$ 883,621	$ 849,504
Property and Equipment:		
Buildings on leased land, improvements to leased properties, and leasehold—at cost less write-down of $1,217,441 on January 31, 1933 to replacement cost at that date and less amortization of $3,522,681 and $3,193,710 at the respective dates	$ 7,441,084	$ 7,254,512
Store fixtures and equipment—at cost less depreciation of $752,656 and $588,228 at the respective dates	2,584,011	1,908,165
	$10,025,095	$ 9,162,677
Goodwill—at nominal amount	$ 1	$ 1
	$25,420,623	$22,950,416

STRAUS INC.

SHEET

LIABILITIES	January 29, 1949	January 31, 1948
CURRENT LIABILITIES:		
Accounts payable	$ 2,361,811	$ 2,286,478
Salaries and wages	418,486	446,028
Federal taxes on income	1,815,000	1,315,000
Miscellaneous accrued liabilities	452,817	262,079
TOTAL CURRENT LIABILITIES	$ 5,048,114	$ 4,309,585
RESERVES:		
For possible assessment of taxes for prior years	$ 384,494	$ 317,470
For past service benefits under retirement plan	211,241	264,051
	$ 595,735	$ 581,521
STOCKHOLDERS' INVESTMENT:		
Preferred stock, cumulative, par value $100 (Note 3):		
4¾%, redeemable at $104, authorized, 19,000 shares; issued and outstanding, 18,000 shares at January 29, 1949	$ 1,800,000	$ 1,900,000
4¼%, redeemable at $100, authorized, 30,000 shares; issued and outstanding, 29,000 shares at January 29, 1949	2,900,000	3,000,000
Common stock, no par value:		
Authorized, 250,000 shares		
Issued and outstanding, 155,155 shares	1,405,325	1,405,325
Accumulated earnings employed in the business	13,671,449	11,753,985
	$19,776,774	$18,059,310
	$25,420,623	$22,950,416

ABRAHAM & STRAUS INC.

STATEMENT OF INCOME

	52 Weeks Ended	
	January 29, 1949	January 31, 1948
Net retail sales (including sales of leased departments)	$67,879,336	$63,741,949
Deduct:		
Cost of goods sold and expenses, exclusive of items listed below	$60,409,921	$58,095,433
Maintenance and repairs	1,517,066	1,240,467
Depreciation and amortization	547,500	393,955
Rentals	605,900	684,518
Interest	75,191	37,398
	$63,155,578	$60,451,771
	$ 4,723,758	$ 3,290,178
Other income—net	2,231	15,416
Income Before Federal Taxes on Income	$ 4,725,989	$ 3,305,594
Federal taxes on income	1,815,000	1,315,000
Net Income	$ 2,910,989	$ 1,990,594

ACCUMULATED EARNINGS EMPLOYED IN THE BUSINESS

	52 Weeks Ended	
	January 29, 1949	January 31, 1948
Balance, beginning of period	$11,753,985	$10,652,340
Add:		
Net income for period	2,910,989	1,990,594
Adjustment applicable to prior years—recomputation of LIFO inventories	—	27,000
	$14,664,974	$12,669,934
Deduct dividends on:		
4¾% preferred stock—$4.75 per share	$ 90,250	$ 90,250
4¼% preferred stock—$4.25 per share	127,500	127,500
Common stock—$5.00 and $4.50 per share, respectively	775,775	698,199
	$ 993,525	$ 915,949
Balance, end of period	$13,671,449	$11,753,985

ABRAHAM & STRAUS INC.

NOTES TO FINANCIAL STATEMENTS

1. OTHER INSTALMENT ACCOUNTS are sold to a bank; these balances are as follows:

	January 29, 1949	January 31, 1948
Balances sold	$2,818,900	$2,230,567
Equity therein	$ 281,890	$ 223,057
Balances not sold	384,048	415,488
Total	$ 665,938	$ 638,545
Less provision for possible future losses and deferred carrying charges	303,447	249,000
Net	$ 362,491	$ 389,545

2. MERCHANDISE INVENTORIES aggregated $4,491,035 at January 29, 1949. The retail method of inventories was used. Of the total inventory, $4,452,787 is stated on the LIFO (last-in, first-out) basis, which is lower than market, and $38,248 is stated without adjustment to the LIFO basis, at cost or market whichever lower. The LIFO basis has been employed beginning with the year ended January 31, 1942.

In the determination of net income, the LIFO basis has the effect of deducting from sales the cost of the last items of merchandise purchased instead of the average cost of the merchandise on hand at the beginning of the year plus purchases during the year. Therefore, generally, in a period of rising prices the effect of LIFO is to show earnings and merchandise inventories lower than they otherwise would have been; in a period of declining prices, earnings would be greater on the LIFO basis. Other factors also affect the result, such as changes in physical quantities and in the percentages of mark-up. The adjustment of inventory values in keeping with the LIFO principle is accomplished through the use of a series of price indexes prepared by the United States Bureau of Labor Statistics.

Prior to March, 1948 the use of the LIFO inventory method by retail stores for federal tax purposes was disputed by the Treasury Department and the Company had made some payments of tax and interest pending final settlement of the controversy. LIFO is now permitted to be used for tax purposes under the Treasury Department regulations and these payments, as adjusted, are shown in the balance sheet as "Refundable federal taxes on income."

3. On or before June 1st of each year, the Company is required to expend for the repurchase of each issue of preferred stock the greater of (a) $25,000 or (b) 4% of the net income for the preceding fiscal year determined for each issue in the following manner: 4¾% preferred stock—net income less dividends on this stock; 4¼% preferred stock—net income less all preferred dividends and less amount required for repurchase of 4¾% preferred stock. The repurchases to January 29, 1949 exceed the requirement to June 1, 1949 by $18,795 for the 4¾% preferred stock and the Company is required to expend $3,216 by June 1, 1949 for the repurchase of its 4¼% preferred stock.

TOUCHE, NIVEN, BAILEY & SMART

Certified Public Accountants

233 BROADWAY

NEW YORK 7, N. Y.

April 13, 1949

BOARD OF DIRECTORS AND STOCKHOLDERS,
ABRAHAM & STRAUS, INC.,
Brooklyn, New York.

We have examined the balance sheet of Abraham & Straus, Inc. as of January 29, 1949 and the related statements of income and accumulated earnings employed in the business for the 52 weeks 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, the accompanying balance sheet and statements of income and accumulated earnings employed in the business present fairly the financial position of Abraham & Straus, Inc. at January 29, 1949, and the results of its operations for the 52 weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, NIVEN, BAILEY & SMART

Certified Public Accountants